

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86/2

453 SCOMM12: OIL & GAS TAXATION & PIPELINE 1972-77

INSTRUCTIONS

Give an analysis of changes during the year in account No. 30, "Carrier Property," by carrier-property accounts, including investments in system properties.

Show in column (c) the debits representing newly constructed property, and additions and improvements made to existing property. Both the debits and credits involved in the distribution to carrier property primary accounts of amounts previously charged to account No. 187 should be entered in column (c). In column (d) show expenditures for existing pipe line property purchased or otherwise acquired. Show in column (e) the total credits representing property sold, abandoned, or otherwise retired during the year.

If during the year pipe line operating property was acquired from or sold to some other company, the purchase or sales price for such work, in excess of \$100,000, state in a footnote the name of the company, the balance acquired or disposed of, and the date of acquisition or disposal, giving terms and the cost of the property to the respondent. Also furnish a statement of the amount included or credited to each primary account representing such property acquired or disposed of.

Show in column (g) for each primary account the net of all accounting adjustments, transfers, and clearances applicable to prior years' accounting.

Each adjustment, clearance, or transfer in excess of \$100,000 should be fully explained in a footnote, except that transfers to or from account No. 31 "Non-operating property" should be explained in schedule 31.

An entry in column (f), net of (g), which represents an excess of credits over debits—should be indicated as follows:

Line No.	Account	Balance at beginning of year		
	(a)	(b)		
		\$	¢	¢
1	GATHERING LINES			
2	(101) Land			
3	(102) Right of way			
4	(103) Line pipe			
5	(104) Line pipe fittings			
6	(105) Pipeline construction			
7	(106) Buildings			
8	(107) Boilers			
9	(108) Pumping equipment			
10	(109) Machine tools and machinery			
11	(110) Other station equipment			
12	(111) Oil tanks			
13	(112) Delivery facilities			
14	(113) Communication systems			
15	(114) Office furniture and equipment			
16	(115) Vehicles and other work equipment			
17	(116) Other property			
18	TOTAL			
19	TRUNK LINES			
20	(151) Land	44	891	
21	(152) Right of way	3	390	
22	(153) Line pipe	1	613	755
23	(154) Line pipe fittings		322	276
24	(155) Pipeline construction	5	993	613
25	(156) Buildings	1	992	045
26	(157) Boilers		10	849
27	(158) Pumping equipment		637	699
28	(159) Machine tools and machinery		7	010
29	(160) Other station equipment	1	828	825
30	(161) Oil tanks	5	934	082
31	(162) Delivery facilities	21	858	535
32	(163) Communication systems		303	006
33	(164) Office furniture and equipment		34	029
34	(165) Vehicles and other work equipment		195	729
35	(166) Other property			
36	TOTAL	40	779	734
37	GENERAL			
38	(171) Land	4	327	
39	(176) Buildings		13	558
40	(179) Machine tools and machinery			
41	(183) Communication systems		39	851
42	(184) Office furniture and equipment		8	026
43	(185) Vehicles and other work equipment		4	892
44	(186) Other property			
45	(187) Construction work in progress		37	386
46	TOTAL		108	040
47	GRAND TOTAL	40	887	774

236. CARRIER PROPERTY—Concluded

21.

[illegible]

**231. DEPRECIATION BASE AND RATES - CARRIER PROPERTY
(EXCLUSIVE OF SYSTEM PROPERTY REPORTED IN SCHEDULE 231A)**

22.

Show in columns (b) and (c) for each depreciable property account the balance at the beginning and end of the year, respectively, in computing depreciation charges. The average depreciation base column (d) should be determined for each such depreciable account adding together the base used for each month during the year and dividing the total by 12.

If composite annual depreciation rates are prescribed, those in effect at the close of the year should be shown in column (e). If component rates are prescribed, the composite rates to be shown in column (e) should be computed from the charges developed for December by application of the prescribed component rates. Whether component or composite rates are prescribed, the entries on lines 16, 32, 39, and 40 of column (e) should be computed from December depreciation charges.

3. Information to be included in columns (b) and (c) of lines 41 to 45 inclusive, is for reconciliation of the returns in these schedules with those in schedule 230.

4. Entries on line 43 should agree with totals for the beginning and end of the year in columns (b) and (c), respectively, of schedule 233, "Amortization Base and Reserve." Amounts included in line 43, "Values being amortized," should be excluded from items shown on lines 41 and 42.

ACCOUNT (a)	DEPRECIATION BASE			ANNUAL COMPOSITE RATES (e)	
	Balance at beginning of year (b)	Balance at close of year (c)	Average balance for the year (d)		
DEPRECIABLE CARRIER PROPERTY - GATHERING LINES					
(102) Right of way					
(103) Line pipe					
(104) Line pipe fittings					
(105) Pipeline construction					
(106) Buildings					
(107) Boilers					
(108) Pumping equipment					
(109) Machine tools and machinery					
(110) Other station equipment					
(111) Oil tanks					
(112) Delivery facilities					
(113) Communication systems					
(114) Other furniture and equipment					
(115) Vehicles and other work equipment					
(116) Other property					
All depreciable gathering lines accounts					
DEPRECIABLE CARRIER PROPERTY - TRUNK LINES					
(152) Right of way	3 390	3 390	1 390	4 00	
(153) Line pipe	1 613 745	1 623 287	1 618 521	4 00	
(154) Line pipe fittings	327 276	345 520	333 898	4 00	
(155) Pipeline construction	5 993 611	6 045 054	6 019 134	4 00	
(156) Buildings	1 992 073	1 972 971	1 982 518	4 00	
(157) Boilers	10 859	10 859	10 859	4 00	
(158) Pumping equipment	634 679	630 325	634 027	4 00	
(159) Machine tools and machinery	7 010	7 010	7 010	4 00	
(160) Other station equipment	1 853 373	1 853 373	1 853 373	4 00	
(161) Oil tanks	5 934 062	5 934 132	5 934 132	4 00	
(162) Delivery facilities	21 823 034	22 038 862	21 948 698	4 00	
(163) Communication systems	303 036	303 036	303 036	10 00	
(164) Other furniture and equipment	34 079	34 313	34 712	5 00	
(165) Vehicles and other work equipment	174 579	154 064	174 886	8 90	
(166) Other property					
All depreciable trunk line accounts	40 744 643	40 995 896	40 865 369	4 06	
DEPRECIABLE CARRIER PROPERTY - GENERAL					
(176) Buildings	13 558	13 558	13 558	4 00	
(179) Machine tools and machinery					
(183) Communication systems	40 614	41 378	40 614	10 00	
(184) Other furniture and equipment	7 677	7 328	7 677	5 00	
(185) Vehicles and other work equipment	4 846	5 779	4 846	18 75	
(186) Other property					
All depreciable general accounts	65 377	67 073	66 682	8 27	
All depreciable other property accounts	40 744 643	41 062 937	40 932 024	1 07	
NONDEPRECIABLE CARRIER PROPERTY - EXCLUDED FROM DEPRECIATION					
(101) Land (not in use)	59 243	59 243			
(187) Construction in progress	211 517	211 517			
Values being amortized (see schedule 233)					
All nondepreciable other property	270 760	270 760			
All nondepreciable other property accounts	40 382 775	41 323 674			

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231A. DEPRECIATION BASE AND RATES - SYSTEM PROPERTY
(THIS SCHEDULE IS FOR USE ONLY WHEN SPECIFICALLY DIRECTED BY THE COMMISSION)

Follow instructions for Schedule 231. Depreciation Base and Rates - Carrier Property

Name of system:

Account	DEPRECIATION BASE						Annual composite rates	
	Balance at beginning of year (b)		Balance at close of year (c)		Average balance for the year (d)		(e)	
(a)	\$		\$		\$			%
DEPRECIABLE SYSTEM PROPERTY-GATHERING LINES								
(102) Right of way								
(103) Line pipe								
(104) Line pipe fittings								
(105) Pipeline construction								
(106) Buildings								
(107) Boilers								
(108) Pumping equipment								
(109) Machine tools and machinery								
(110) Other station equipment								
(111) Oil tanks								
(112) Delivery facilities								
(113) Communication systems								
(114) Office furniture and equipment								
(115) Vehicles and other work equipment								
(116) Other property								
All depreciable gathering lines accounts								
DEPRECIABLE SYSTEM PROPERTY-TRUNK LINES								
(152) Right of way								
(153) Line pipe								
(154) Line pipe fittings								
(155) Pipeline construction								
(156) Buildings								
(157) Boilers								
(158) Pumping equipment								
(159) Machine tools and machinery								
(160) Other station equipment								
(161) Oil tanks								
(162) Delivery facilities								
(163) Communication systems								
(164) Office furniture and equipment								
(165) Vehicles and other work equipment								
(166) Other property								
All depreciable trunk lines accounts								
DEPRECIABLE SYSTEM PROPERTY-GENERAL								
(176) Buildings								
(179) Machine tools and machinery								
(183) Communication systems								
(184) Office furniture and equipment								
(185) Vehicles and other work equipment								
(186) Other property								
All depreciable general accounts								
All depreciable system property accounts								
NONDEPRECIABLE SYSTEM PROPERTY (see instruction 1)								
(101) (151) (171) Land								
Land development in system property								

232. ACCRUED DEPRECIATION-CARRIER PROPERTY
(EXCLUSIVE OF DEPRECIATION ON SYSTEM PROPERTY REPORTED IN SCHEDULE 232A)

24.

particulars of the credits and debits to account No. 31, "Accrued depreciation-carrier property," during the year. All contra the respective columns herein should be indicated in parentheses.

ACCOUNT (a)	Balance at beginning of year (b)	Charged to account No. 31 (c)	Net charge from retirement of carrier property (d)	Other debits and credits-Net (e)	Balance at close of year (f)
GATHERING LINES					
1 Right of way.....					
1 Line pipe.....					
1 Line pipe fittings.....					
1 Pipeline construction.....					
1 Buildings.....					
1 Boilers.....					
1 Pumping equipment.....					
1 Machine tools and machinery.....					
1 Other station equipment.....					
1 Oil tanks.....					
1 Delivery facilities.....					
1 Communication systems.....					
1 Office furniture and equipment.....					
1 Vehicles and other work equipment.....					
1 Other property.....					
TOTAL					
TRUNK LINES					
1 Right of way.....	320	132			452
1 Line pipe.....	145 325	64 553	(206)		209 672
1 Line pipe fittings.....	20 659	12 896	(943)		32 610
1 Pipeline construction.....	534 167	240 987	(349)		774 805
1 Buildings.....	115 895	79 456	(23 441)		171 908
1 Boilers.....	939	432			1 371
1 Pumping equipment.....	(89 637)	25 527	(18 731)		(82 841)
1 Machine tools and machinery.....	503	276			779
1 Other station equipment.....	126 850	74 055	(84)		200 820
1 Oil tanks.....	347 431	237 462			584 893
1 Delivery facilities.....	1 223 330	873 639	(3 921)		2 092 048
1 Communication systems.....	30 620	30 300			60 920
1 Office furniture and equipment.....	2 249	1 719	(189)		3 779
1 Vehicles and other work equipment.....	22 467	13 553	(55 532)		(19 618)
1 Other property.....					
TOTAL	2 931 875	1 654 782	(103 604)		4 532 449
GENERAL					
1 Buildings.....	651	550			981
1 Machine tools and machinery.....					
1 Communication systems.....	396	4 423			4 819
1 Office furniture and equipment.....	218	399	(378)		739
1 Vehicles and other work equipment.....	753	860	(2 490)		(877)
1 Other property.....					
TOTAL	2 118	5 132	(2 868)		502
GRAND TOTAL	9 433 160	1 660 604	(106 272)		4 537 492

232A. ACCRUED DEPRECIATION - SYSTEM PROPERTY
(THIS SCHEDULE IS FOR USE ONLY WHEN SPECIFICALLY DIRECTED BY THE COMMISSION)

25.

Follow instructions for Schedule 232, Accrued Depreciation - Carrier Property

Name of system:

Amount (a)	Balance at beginning of year (b)	Charged to account New (c)	Net charge from retirement of system property (d)	Other debits and credits - Net (e)	Balance at close of year (f)
GATHERING LINES					
(102) Right of way					
(103) Line pipe					
(104) Line pipe fittings					
(105) Pipeline construction					
(106) Buildings					
(107) Boilers					
(108) Pumping equipment					
(109) Machine tools and machinery					
(110) Other station equipment					
(111) Oil tanks					
(112) Delivery facilities					
(113) Communication systems					
(114) Other facilities and equipment					
(115) Vehicles and other work equipment					
(116) Other property					
Total					
TRUNK LINES					
(152) Right of way					
(153) Line pipe					
(154) Line pipe fittings					
(155) Pipeline construction					
(156) Buildings					
(157) Boilers					
(158) Pumping equipment					
(159) Machine tools and machinery					
(160) Other station equipment					
(161) Oil tanks					
(162) Delivery facilities					
(163) Communication systems					
(164) Other facilities and equipment					
(165) Vehicles and other work equipment					
(166) Other property					
Total					
GENERAL					
(176) Buildings					
(177) Machine tools and machinery					
(183) Communication systems					
(184) Other facilities and equipment					
(185) Vehicles and other work equipment					
(186) Other property					
Total					
Grand Total					

26.

5. Adjustments included in column (4), affecting operating expenses, should be fully explained.

6. Should respondent elect to report by projects, each project amounting to \$10,000 or more should be briefly described as to kind of property. Location of property should not be stated.

4. If amounts represented in column (g) are different from corresponding charges to account No. 540, for the same property, such differences should be explained in detail.

Items less than \$10,000 should be combined in a single entry designated "Minor items . . . in number, each less than \$10,000."

AGO 531745

234. NONCARRIER PROPERTY

27.

"Give particulars of all investments of the respondent in physical property includable in account No. 34, "Nonexempt property," in the Uniform System of Accounts for Pipe lines. The description of the property in column (a) should give the location and other identification of it with a reasonable degree of particularity.

Each item amounting to \$100,000 or more should be stated. Items less

than \$100,000 may be combined in a single entry designated "Minor Items, each less than \$100,000."

If any property of the character provided for in this schedule was disposed of during the year, or by reclassification was transferred to or from the carrier property accounts, give particulars in a footnote.

The revenues, expenses, and taxes of operated properties should be summarized in schedule 310 on page 305.

[illegible]

28.

in a single entry designated "Minor items, each less than \$20,000." In case the character of any item is not fully disclosed by the entries in the columns hereunder, make a full explanation in a footnote.

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29.

single entry may be made under a caption "Minor accounts, each less than \$100,000."

Factors in columns (g) and (h) should include interest accruals and interest payments on notes payable retained during the year even though no portion of the obligation remained outstanding at the close of the year.

For creditors whose balances were generally less than \$100,000, a

[illegible]

For creditors whose balances were severally less than \$100,000, a single entry may be made under a caption "Minor accounts, each less than \$100,000."

List every item in areas of \$100,000.

(a) Name of individual	(b) Character of liability and of transaction	(c) Balance at close of year
Minor accounts, each less than \$100,000		55 710
Total		55 710

For creditors whose balances were severally less than \$100,000, a single entry may be made under a caption "Minor accounts, each less than \$100,000."

List every item in *excess* of \$150,000.

Balance Sheet	Balance Sheet or Statement	Balance Sheet or Statement
Minor accounts, each less than 100,000		20 210

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251. LONG-TERM DEBT PAYABLE WITHIN ONE YEAR

30.

Give particulars of the various unmatured bonds and other evidences of long-term debt of the respondent included in account No. 57, "Long-term debt payable within one year" at the close of the year.

In column (a) show the name of each bond or other obligation as it is designated in the records of the respondent.

In case obligations of the same designation mature serially or otherwise

At various dates, enter in column (c) the latest date of maturity and explain the matter in a footnote.

Column (d) calls for the par value of the amount of debt authorized to be incurred, as determined by the final authority whose assent is necessary to the legal validity of the issue. In case such final authority (e.g., public officer or board) attach a footnote showing such officer or board and the date when assent was given.

Name and character of obligation	Nominal date of issue	Date of maturity	Par value of amount authorized		Total par value issued and not retired at close of year	TOTAL PAR VALUE NOMINALLY ISSUED						
						In treasury		Pledged as collateral		To sinking or other funds		
			(a)	(b)		(c)	(d)	(e)	(f)	(g)	(h)	
MORTGAGE BONDS			\$		\$		\$		\$		\$	
None												

253 LONG-TERM DEBT PAYABLE WITHIN ONE YEAR—Continued

34.

Entries in column (e) should include long-term debt nominally issued, nominally outstanding, and actually outstanding.

Entries should conform to the definitions of "nominally issued", "actually issued", etc., as given in the last paragraph of instructions on page 226.

If the interest accrued during the year as entered in columns (e) and (p) does not aggregate the total accrual for the year on any security, explain the discrepancy. Entries in these columns should include interest

accrued on long-term debt reacquired or retired during the year, although no portion of the issue is actually outstanding at the close of the year.

In determining the entries for column (q), do not treat any interest as paid unless the liability of the respondent in respect to it is extinguished. Deposits of cash with banks and other fiscal agents for the payment of interest coupons should not be reported as payments of such interest until actually paid to coupon holders or others under such circumstances as to relieve the respondent from further liability.

TOTAL PAR VALUE NOMINALLY OUTSTANDING				INTEREST PROVISIONS		Amount of interest accrued during year charged to income		Amount of interest charged to construction or other investment account		Amount of interest paid during year		Line No.	
In treasury		Fledged as collateral	In sinking or other funds	Total par value actually outstanding at close of year		Rate per cent per annum (m)	Dates due (n)	(o)		(p)		(q)	
(a)		(b)	(c)	(d)			(e)						
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At a rate equal to 1/42 per annum above the best rate of the bank on a 90 day loan to AGO 531750

260. LONG-TERM DEBT PAYABLE AFTER ONE YEAR

32.

Give particulars of the various unmatured bonds and other evidences of long-term debt of the respondent included in account No. 60, "Long-term debt payable after one year," maturing more than one year from the date of the balance sheet.

In column (a) show the name of each bond or other obligation as it is designated in the records of the respondent.

In case obligations of the same designation mature serially or otherwise at various dates, enter in column (c) the latest date of maturity and explain the matter in a footnote.

Column (d) calls for the par value of the amount of debt authorized to be incurred, as determined by the final authority whose assent is necessary to the legal validity of the issue. In case such final authority is some public officer or board, attach a footnote showing such officer or board and the date when assent was given. In all cases where any issues, whether actual or merely nominal, were made during the year, state on page 224 the purposes for which such issues were authorized as expressed in the resolution of the final authority passing on the matter.

Line No.	Name and character of obligation	Nominal date of issue	Date of maturity	Par value of amount authorized	Total par value issued and not retired at close of year	TOTAL PAR VALUE NOMINALLY ISSUED					
						In treasury		Pledged as collateral		In sinking or other funds	
	(a)	(b)	(c)	(d)	(e)	(f)		(g)		(h)	
1	MORTGAGE BONDS			\$	\$	\$		\$		\$	
2	None										
3											
4											
5											
6											
7											
8											
9											
10											
11											
12	Total for mortgage bonds										
13	COLLATERAL TRUST BONDS										
14	None										
15											
16											
17											
18											
19	Total for collateral trust bonds										
20	INCOME BONDS										
21	None										
22											
23											
24	Total for income bonds										
25	MISCELLANEOUS OBLIGATIONS										
26	Promissory Note										
27	*A, B, C, D, E	3/22/66	2/28/71		18 055 556						
28	*V, W, X, Y, Z	3/7/67	2/28/71		14 444 444						
29											
30											
31											
32											
33											
34											
35	Total for miscellaneous obligations				32 500 000						
36	Notes payable to banks										
37	None										
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32 500 000

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260. LONG-TERM DEBT PAYABLE AFTER ONE YEAR—Concluded

33.

Entries in column (e) should include long-term debt nominally issued, nominally outstanding, and actually outstanding.

Entries should conform to the definitions of "nominally issued", "actually issued", etc., as given in the last paragraph of instructions on page 226.

If the interest accrued during the year as entered in columns (c) and (p) does not aggregate the total accrual for the year on any security, explain the discrepancy. Entries in these columns should include interest

accrued on long-term debt reacquired or retired during the year, although no portion of the issue is actually outstanding at the close of the year.

In determining the entries for column (q), do not treat any interest as paid unless the liability of the respondent in respect to it is extinguished. Deposits of cash with banks and other fiscal agents for the payment of interest coupons should not be reported as payments of such interest until actually paid to coupon holders or others under such circumstances as to relieve the respondent from further liability.

TOTAL PAR VALUE NOMINALLY OUTSTANDING			INTEREST PROVISIONS		Amount of interest accrued during year charged to income		Amount of interest charged to construction or other investment account		Amount of interest paid during year		Line No.
In treasury	Pledged as collateral	In sinking or other funds	Total par value actually outstanding at close of year	Rate per cent per annum	Dates due	(f)	(g)	(h)	(i)	(j)	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	
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			18 055 556	**	2/28; 5/31 6/31; 11/30	1 473 259			1 493 912		27
			14 444 444	**	2/28; 5/31 6/31; 11/30	1 178 607			1 195 129		28
											29
											30
											31
											32
											33
											34
			32 500 000			2 651 866			2 689 041		35
											36
											37
											38
											39
											40
											41
											42
											43
											44
											45
			32 500 000			2 651 866			2 689 041		46

**At a rate equal to 1/16 per annum above the best rate of the bank on a 90 day loan to substantial and commercial borrowers.

AGO 531752

261. LONG-TERM DEBT CHANGES DURING THE YEAR

34.

Give particulars of long-term debt actually or nominally issued (either original issues or renewals), long-term debt assumed, and long-term debt reacquired or canceled during the year. Include matured and unmatured long-term debt changes during the year. In column (b) state whether issued for the purchase of a complete pipe line, constructing and equipping new plant, or improvements to or extension of existing plant, for refunding or paying out standing securities, for acquisition of securities, for reorganization, or for cash, etc. If an issue of securities was authorized for more than one purpose, state amount applicable to each purpose. Also give the number and date of authorization by the public authority under whose

control such issue was made, naming such authority. In column (e) include as cash all money, checks, drafts, bills of exchange, and other commercial paper payable at par on demand. For nominally issued securities show returns in columns (a), (b), (c), and (d) only.

For each class of long-term debt actually issued, the sum of the entries in columns (e), (f), and (h), plus discounts or less premiums in column (g), should equal the entry in column (d). For definition of expense, reportable in column (h), see definition 14 on page 3 of the Uniform System of Accounts for Pipe Lines.

LONG-TERM DEBT ISSUED DURING YEAR						
Name of obligation	Date of issue	Purpose of the issue and authority	Par value		Net proceeds received for issue (cash or its equivalent)	
(a)	(b)	(c)	(d)		(e)	
			\$		\$	
None						

262. SECURITY FOR LONG-TERM DEBT

35.

particulars of the property of the respondent mortgaged, or otherwise encumbered as security for the unmatured term of the respondent at the close of the year.

Make reference to each sinking fund required to be used for the redemption or retirement of long-term debt, and refer to the page and schedule of this report particulars of such fund are shown, if no such

fund has been established, state fully the reasons why the sinking fund requirements have not been complied with. Give an abstract or synopsis of the contract provisions governing the establishment and maintenance of each such fund.

The respondent may, in lieu of giving the particulars called for in this schedule, furnish copies of all mortgages, trust deeds, and equivalent instruments in force at the close of the year, or give reference to copies of such instruments previously filed with the

Commission. All instruments, copies of which are filed or referred to, should be listed in column (a).

If the respondent has mortgaged or pledged any of its property for the purpose of securing the payment of any debt for which some other company is primarily responsible, give particulars such mortgage or pledge also, and state the name of the primary debtor. Show what security has been taken by the respondent in connection with the loan of its credit.

(a) Name of mortgagee or other lien

(b) Plant and equipment mortgaged

(c) Securities, income, etc., pledged or pledged

Promissory Notes secured
by Interceptor Agreement
between Black Inlet Pipe Line
Company and Atlantic
Gulffield Co., Marathon Oil
Co., Mobil Pipe Line, and
Nippon Oil Co. of Calif.,
this agreement assigned to
First National City Bank of
New York as collateral.
For details see confirmed Copy
interceptor agreement at
page 103 of the 1947 Annual
Report.

36.

- public officer and a tax or other fee has to be paid as a condition precedent to the validity of the issue, give the date of such payment. In case some condition precedent has to be complied with after the approval and ratification of the stockholders has been obtained, state, in a footnote, the particulars of such condition and of the respondent's compliance therewith.
5. For the purposes of this report, capital stock and other securities are considered to be *nominal* if issued when certificates are signed and sealed and placed with the proper officer for sale and delivery or are pledged or otherwise placed in some special fund of the respondent. They are considered to be *actual* when sold to a bona fide purchaser for a valuable consideration, and such purchaser holds from commencement by the respondent. All securities actually issued and not required by or for the respondent are considered to be *actually authorized*. If required by or for the respondent under such circumstances as

as require them to be considered as held alive, and not can-
or retired, they are considered to be *originally* *exterior* *line*
6. Column (d) refers to the initial preferred dividend paid
before any common dividend, and (e) and (f) to pay-
ments in excess of initial preferred dividend, at a set
percentage or amount (column (g)) (column (h) of a per-
centage or proportion of the profits in excess of

7. "Authenticated" as applied to column (e) of the table
means the total fair value of certificates of par value, less
total number of shares of such stock that have been
and issued and placed in the hands of persons other than
share of other stock. The term "authenticated" is
the sum total of the amount of such stock that has been
a "authenticated" stock.

8. It is not necessary to include in the computation of the
dividend a share of stock that has been

[illegible]

In column (c) state whether issued for construction of new properties, for additions and betterments, for purchase of pipe line or other property, for conversion, for acquisition of securities, for reorganization, or for other corporate purposes. If an issue of securities was authorized for

more than one purpose, state amount applicable to each purpose. Also give the number and date of the authorization by the public authority under whose control such issue was made, naming such authority. In column (e) include as cash all money, checks, drafts, bills of exchange, and other commercial paper payable at par on demand. For nonnominally issued stock, show returns in columns (a), (b), (c), and (d) only. For each class of par stock actually issued the sum of the entries in columns (e), (f), and (h), plus discounts or less premiums in column (g), should equal the entry in column (d).

	STOCKS ISSUED DURING YEAR			STOCKS PURCHASED DURING YEAR		
	Cash value of other property acquired or services received as consideration for issue.	Net total discounts on (premiums) or on (discounts) on stock issued.	Expense of issuing capital stock.	Fair value (For common stock show the number of shares.)	Purchase price.	Remarks.
	(f)	(g)	(h)	(i)	(j)	(k)
1						
2						
3						
4						
5						
6						
7						
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11						
12						
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14						
15						
16						
17						
18						
19						
20						

If at the close of the year report had been subject to any liability to issue its own capital stock in exchange for outstanding securities of constituent or other company, give full particulars, including names of parties to contracts and abstracts of terms of contracts whereunder such liability exists.

38.

[illegible]

275. APPROPRIATED RETAINED INCOME

Give an analysis of the amount in account No. 74, "Appropriated retained income," at the close of the year.

39.

[illegible]

300. UNAPPROPRIATED RETAINED INCOME STATEMENT

40.

Show hereunder the amounts included in the "Retained income" accounts of the respondent for the year, classified in accordance with Uniform System of Accounts for Pipe Lines.

Item (a)	Amount (b)
(75) Unappropriated retained income at beginning of year (p. 201)-----	\$ 114,887
CREDITS	
(700) Net balance transferred from income (p. 301)-----	xx xx xx 5,210,933
(710) Other credits to retained income* (p. 307)-----	
Total-----	5,210,933
DEBITS	
(700) Net balance transferred from income (p. 301)-----	xx xx xx
(720) Other debits to retained income* (p. 307)-----	
(740) Appropriations of retained income-----	
(750) Dividend appropriations of retained income (p. 300)-----	3,100,000
TOTAL-----	3,100,000
Net increase (or decrease) during year-----	5,110,933
(75) Unappropriated retained income at end of year (p. 201)-----	5,225,820
* Notes: Amount of assigned Federal income tax consequences:	
Account 710-----	None
Account 720-----	None

301. DIVIDEND APPROPRIATIONS OF RETAINED INCOME

1. Give particulars of each dividend declared. If any dividend was payable in anything other than cash, the consideration shall be described in a footnote with sufficient particularity to identify it.

2. If an obligation of any character has been incurred for the purpose of procuring funds for the payment of any dividend or for the purpose of planning the treasury of the respondent after payment of any dividend, give full particulars in a footnote. (Requests for dividends on temporary

stock should show the amount declared per share in columns (b) and (c), and in column (d) the number of shares on which the dividends were declared. If any class of stock received a return not reportable in this schedule, or if any special comment regarding "Rate percent" is desired, give particulars in a footnote.

3. The sum of the dividends stated in column (e) should equal those shown in schedule No. 300.

Name of security on which dividend was declared	Rate Percent on (one share)		Par value or number of shares of stock on which dividend was declared	Amount of dividend (e)	Date	
	Fixed	Extra			Declared (f)	Payable (g)
Common Stock Issued	2 1/2.00		4 000 000	1 000 000	4/21/70	4/30/70
Common Stock Issued	2 1/2.00		4 000 000	1 000 000	6/22/70	6/30/70
Common Stock Issued	2 1/2.50		4 000 000	1 100 000	9/11/70	9/30/70
Total	xx	xx	xx	3 100 000	xx	xx

AGO 531759

Give the particulars called for from the Income Accounts of the respondent for the year. The entries in this statement should be determined in accordance with the rules prescribed in the Uniform System of Accounts for Pipe Lines, and should be consistent with the details stated on the pages referred to. All entries, entries to remainder, should be indicated in parentheses.

Item (a)	Amount (b)		
ORDINARY ITEMS			
Carrier Operating Income	\$		
(600) Operating revenues (p. 302)	11	399	504
(610) Operating expenses (p. 303)	(3)	421	991
Net carrier operating income	7	977	513
Other Income and Deductions			
(620) Income (net) from non-carrier property (p. 305)	xx	xx	xx
(630) Interest and dividend income (p. 306)		173	106
(640) Miscellaneous income (p. 307)			
(650) Interest expense	(2)	937	452
(660) Miscellaneous income charges (p. 307)		(2)	278
Total other income and deduction	(2)	766	580
Ordinary income before Federal income taxes	5	210	933
(670) Federal income taxes on ordinary income			
Ordinary Income	5	210	933
EXTRAORDINARY AND PRIOR PERIOD ITEMS			
(680) Extraordinary items-Net Credit (Debit) (p. 307)	xx	xx	xx
(690) Prior period items - Net Credit (Debit) (p. 307)			
(695) Federal income taxes on extraordinary and prior period items - Debit (Credit) (p. 307)			
Total extraordinary and prior period items - Credit (Debit)			
Net income (or loss)	5	210	933

1. Net reduction in charges to account 670, for Federal income taxes to be reported in the tax return for the current year and corresponding increase in net income because of accelerated amortization of emergency facilities under section 168 of the Internal Revenue Code in excess of recorded depreciation \$ None

net effect is an increase, this should be so indicated.)

2. Net reduction or increase in charges to account 670, during the current year and corresponding increase or decrease in net income because of accelerated depreciation of facilities under section 167 of the Internal Revenue Code and depreciation deductions falling from the use of such line property pursuant to Revenue Procedure 62-21 in excess of recorded depreciation \$ None

net effect is an increase, this should be so indicated.)

3. Amount by which charges to account 670, during the current year were decreased and the reported net income correspondingly raised because of a claim for refund of Federal income taxes due to carryback of current losses to the year(s) \$ None

4. Amount by which charges to account 670, during the current year were decreased and the reported net income correspondingly raised because of reduction in Federal income taxes due to carryover of prior year(s) losses to current year \$ None

5. Amount by which charges to account 670, for payment of Federal income taxes during the current year were decreased and the reported net income correspondingly increased because of the investment tax credit authorized in the Revenue Act of 1962, compared to amount that would otherwise have been payable without such investment tax credit \$ None

MARKS:

During the current year, there were no charges or credits to Account 670 because the company was not in a tax paying position due to carry-over losses from prior years to current year. Following is a reconciliation of Book Income to Tax Income:

Net Income per book	\$ 5,210,933
Less Effects of Tax Depreciation over Book Depreciation	(1,322,775)
Interest Capitalized for Books and Expense for Tax	4,037
Original Issue Expense Capitalized	(249)
Carryover Losses from prior year to Current Year	(1,890,936)
Net Income for Tax	\$ 2,001,010

310. OPERATING REVENUE ACCOUNTS

42.

State the pipeline operating revenues of the respondent for the year, classified in accordance with the Uniform System of Accounts for Pipe Lines.

Operating revenue accounts (a)	Crude oil (b)			Products (c)			Total (d)		
	\$			\$			\$		
(200) Gathering revenues									
(210) Trunk revenues	3	210	521				3	210	521
(220) Delivery revenues	7	561	336				7	561	336
(230) Allowance oil revenue									
(240) Storage and demurrage revenue		627	647					627	647
(250) Rental revenue									
(260) Incidental revenue									
Total	11	399	504				11	399	504

320. OPERATING EXPENSE ACCOUNTS

State the pipeline operating expenses of the respondent for the year.

Operating expense account (a)	Crude oil (b)				Products (c)				Total (d)			
	Gathering (b)	Trunk (c)	Delivery (d)	Total (e)	Gathering (b)	Trunk (c)	Delivery (d)	Total (e)	Gathering (b)	Trunk (c)	Delivery (d)	Total (e)
(300) Salaries and wages												
(310) Supplies and expenses		34 597	61 624	96 221								
(320) Outside charges		184 133	319 451	503 584								
(330) Operating fuel and power		15 305	17 752	33 057								
(340) Oil losses and shortages												
Total Operating Expenses		234 035	398 827	632 862								
(400) Salaries and wages												
(410) Supplies and expenses		13 797	14 280	28 077								
(420) Outside charges		148 846	147 932	296 778								
(430) Maintenance materials		63 293	49 057	112 350								
Total Maintenance Expenses		225 936	211 269	437 205								
(500) Salaries and wages												
(510) Supplies and expenses		1 228	13 276	14 504								
(520) Outside charges		93 508	140 613	234 121								
(530) Outside charges		10 179	3 407	13 586								
(540) Depreciation and amortization		768 860	891 744	1 660 604								
(550) Personnel and other charges												
(560) Insurance		118 294	137 200	255 494								
(570) Commissions and other fees			668	668								
(580) Pipeline taxes and fees		80 074	92 871	172 945								
Total Operating Expenses	1	072 143	1 279 781	2 351 924	1	072 143	1 279 781	2 351 924	1	072 143	1 279 781	2 351 924
Total Operating Expenses	1	532 114	1 889 877	3 421 991	1	532 114	1 889 877	3 421 991	1	532 114	1 889 877	3 421 991

320. OPERATING EXPENSE ACCOUNTS—Continued

Classifying them in accordance with the Uniform System of Accounts for Pipe Lines

Expenses				Total			
Trunk (a)	Delivery (b)	Total (c)		Gathering (d)	Trunk (e)	Delivery (f)	Total (g)
\$	\$	\$	\$	\$	\$	\$	\$
					34 597	61 624	96 221
					134 133	319 451	503 584
					15 305	17 752	33 057
					244 014	298 827	632 862
					14 797	14 280	28 077
					148 846	147 942	296 778
					63 293	59 007	112 300
					9 906	11 269	21 175
					1 238	13 276	14 504
					93 608	1 016 613	234 121
					10 179	3 507	13 686
					763 300	891 744	1 655 044
					118 294	137 200	255 494
						963	963
					30 074	92 871	122 945
					1 071 153	1 279 781	2 350 934
					1 335 115	1 869 877	3 204 992

530. PIPELINE TAXES

Give the particulars called for with respect to the taxes accrued on carrier properties and charged to account No. 580, "Pipeline taxes," of the decedent's Income Account for the year

If during the year an important adjustment was made in account No. 580 for taxes applicable to a prior year, state in a footnote full particulars bearing same.

A. Other Than U. S. Government Taxes

Name of State (a)	Amount (b)	Name of State (c)	Amount (d)
Alabama		New Mexico	
Alaska	172 720	New York	
Arizona		North Carolina	
Arkansas		North Dakota	
California		Ohio	
Colorado		Oklahoma	
Connecticut		Oregon	
Delaware	161	Pennsylvania	
Florida		Rhode Island	
Georgia		South Carolina	
Hawaii		South Dakota	
Idaho		Tennessee	
Illinois		Texas	
Indiana		Utah	
Iowa		Vermont	
Kansas		Virginia	
Kentucky		Washington	
Louisiana		West Virginia	
Maine		Wisconsin	
Maryland		Wyoming	
Massachusetts		District of Columbia	
Michigan		Other (specify)	X X X X
Minnesota			
Mississippi			
Missouri			
Montana			
Nebraska			
Nevada			
New Hampshire			
New Jersey			
		TOTAL Other Than U. S. Government Taxes	172 881

B. U. S. Government Taxes (Except Income Taxes)

	Amount (a)
Old age retirement	
Unemployment insurance	
Other U. S. taxes (specify, except income taxes) U. S. Federal Documentary Stamp Tax	66
TOTAL U. S. Government Taxes	
GRAND TOTAL (Account 580)	172 947

340. INCOME FROM NONCARRIER PROPERTY

1. State the revenues, expenses, and net income of the respondent during the year from each class of nonoperated properties of the character provided for in account No. 620, "Income from noncarrier property," in the Uniform System of Accounts for Pipe Lines.

2. If the income relates to only a part of the year, give particulars in a footnote.

Line No.	General description of property (a)	Total revenues (b)		Total expenses (c)		Net income (d)	
		\$		\$		\$	
1	None						
2							
3							
4							
5							
6							
7							
8							
9							
0							
1							
2							
3							
4							
	Total						

342. ABSTRACTS OF TERMS AND CONDITIONS OF LEASES

Give briefly any changes since the beginning of the year in the terms and conditions of the important leases under which the above-stated income is derived. For any important leases executed during the year give a brief abstract of the terms and conditions, showing particularly (1) the date of the grant, (2) the chain of title (in case of assignment or subletting) and dates of transfer connecting the original parties with the present parties, (3) the basis on which the amount of the annual rent is determined, and (4) the date when the lease will terminate, or, if the date of termination has not yet been fixed, the provisions governing the termination of the lease.

Copies of leases may be filed in lieu of abstracts above called for.

None

345. INTEREST AND DIVIDEND INCOME

Give a detailed analysis of amounts credited to account No. 630, "Interest and dividend income", classified in accordance with the Uniform System of Accounts for Pipe Lines.

[illegible]

360. MISCELLANEOUS ITEMS IN INCOME AND RETAINED INCOME ACCOUNTS FOR THE YEAR

Give a detailed analysis of the items in accounts 640, "Miscellaneous income"; 660, "Miscellaneous income charges"; 680, "Extraordinary items"; 690, "Prior period items"; 695, "Federal income taxes on extraordinary and prior period items"; 710, "Other credits to retained income"; and 720, "Other debits to retained income", for the year. The classification should be made in accordance with the

Uniform System of Accounts for Pipe Lines. For accounts 640 and 660, each item amounting to \$100,000 or more should be stated; items less than \$100,000 in these accounts may be combined in a single entry designated "Minor items, each less than \$100,000." Insert a 1 for each account.

Line No.	Account No. (a)	Item (b)	Debit (c)			Credit (d)		
1	640	Minor items, each less than \$100,000						44
2	660	Minor items, each less than \$100,000		2	278			
3								
4								
5								
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50								

4. In column (4) show all ois received by the respondent from connecting carriers reporting to the Interstate Commerce Commission. In column (5) show all ois originated on respondent's gathering inward in column (1). All ois received in respondent's system from all sources, except receipts shown in

5 Returns in "Note" should be estimated if not actual shown on respondent's records.

* Total number of barrel-miles (trunk lines only):	Crude oil	4,583,232,355	Products	1,000,000,000
Total number of barrels of oil having trunk-line movement:	Crude oil	54,625,043	Products	1,000,000,000

* Minor gattling line (a) lies under temporary or short-term water should be removed from this classification, the lesser or full grade such lines (b, c) which owned and operated by the

(B) OWNED IN UNDIVIDED INTERESTS AND OPERATED BY RESPONDENT

(C) OWNED BY OTHERS BUT OPERATED BY RESPONDENT

Give particulars of the rents payable during the year, for property used in transportation service, included in account No. 530 as defined in the Uniform System of Accounts for Pipe Lines. Each item amounting to \$5,000 or more should be listed, all others may be combined in a single entry designated "Minor items, each less than \$5,000."

422. ABSTRACTS OF LEASEHOLD CONTRACTS

In lieu of the abstracts here called for, the respondent may file copies of lease agreements and give specific references to copies heretofore filed with the Commission.

AGO 531769

561. EMPLOYEES AND THEIR COMPENSATION

Give the number of employees, by classes, in the service of the respondent and state the total compensation, including payments of every character made to each class of employees during the year. If any compensation was paid or is payable under labor awards of the current year, include the amount applicable to the current year in column (c) and show the portion applicable to prior years (back pay) in a footnote, by classes of employees. For purposes of this report, labor awards are intended to cover adjustments resulting from the decisions of Wage Boards and voluntary awards by the respondent incident thereto. The assignment of employees should accord as nearly as possible with the classes listed. If the regular duties of an employee are such as to make him includible in two or more classes, he should be assigned to the class that is indicated by the greater part of his duties, and his compensation assigned to the same class.

For the purpose of the subjoined statement the word "employees" is intended to include every person in the service of the respondent subject to its continuing authority to supervise and direct the manner of rendition of his service. Persons engaged to render only specifically defined service and not subject to the continuing authority of the respondent to supervise

and control their acts, such as lawyers retained only for specific cases and not under general or continuing retainer, are not to be included as employees.

The number of employees in service for entry in column (b) is obtained by adding the number of employees on the payroll in each of the stated classes during the payroll period containing the 12th day of each month and dividing by 12. Every count should cover not only employees actually on duty during the period of the count, but also employees under pay not so on duty if absent from service on sick or other leave or held subject to call for duty.

Each person jointly employed shall, if carried on the payrolls of the several joint employers, be counted by each employer and represented in its return of number of employees by a fraction based on the number of employers reporting him; if a person, for example, is reportable by three employers, each should include him in its number of employees as one-third of an employee. When the entire compensation of a joint employee is shown on the payroll of a single joint employer and is paid to the employee by that employer such employee should, for the purpose of returns, be treated as if employed solely by such employer.

Line No.	Class of employees	Average number of employees in service	Total compensation during year	
			(b)	(c)
1	Executives, general officers, and assistants			
2	General office clerks			
3	Other general office employees			
4	Field clerks			
5	Field superintendents			
6	Professional and subprofessional employees (engineers, chemists, etc.)			
7	Foremen and assistant foremen			
8	Station engineers and pumpers			
9	Station firemen and boiler			
10	Cargers—Delivery men and oil receivers			
11	Telegraph operators			
12	Telegraph and telephone line repairmen			
13	Line riders, walkers, or patrolmen			
14	Pipe line repairmen			
15	Carpenters			
16	Mechanics			
17	Electricians			
18	Other mechanics or skilled trades			
19	Apprentices and helpers (skilled trades)			
20	Truck drivers and teamsters			
21	Laborers, non-union, etc.			
22	All other employees			
23	None	Total		

542. COMPENSATION OF OFFICERS, DIRECTORS, ETC.

Give the name, position, salary, and other compensation, such as bonus, commission, gift, reward, or fee, of each of the five persons named in Schedule 102-A-1163 of this report to whom the respondent paid the largest amount during the year covered by this report as compensation for current or past service over and above necessary expenses incurred in furtherance of duties, and in addition, all other officers, directors, pensioners, or employees, if any, to whom the respondent similarly paid 30,000 or more. If none, so state. This schedule may be filled out for a group of employees considered as one system and shown only in the report of the principal company in the system, with references thereto in the reports of the other companies. Any large "other compensation"

should be explained in a footnote. If salary of an individual was changed during the year, show salary before each change as well as at close of year. If an officer, director, etc., receives compensation from more than one pipe line company (whether a subsidiary or not) or from a subsidiary company, reference to this fact should be made if his aggregate compensation amounts to \$30,000 or more, and detail as to division of the salary should be stated. By salary (column 4) is meant the annual rate at which an employee is paid, rather than the amount actually paid for a part of a year when the salary is changed. Also, when a 10 percent or other percent reduction is made, the net rate, and not the basic rate, should be shown.

[illegible]

563. PAYMENTS FOR SERVICES RENDERED BY OTHER THAN EMPLOYEES

In the form below give information concerning payment of fees, salaries, contributions, gifts, contributions to a trust, bonus, percentage, subscription, allowance for expenses, or any form of payment amounting to the equivalent of \$10,000 or more during the year 1966. The return, institution, or association from partnership membership, or any person (other than the donor or donor's employer) covered in and on page 62 of the annual report for a service or contribution. In the case of contributions of more than \$1,000 which are made to someone without a contract under a partnership and if payment for the performance of service or an allowance for expenses is contributed, this be reported as a percentage of the amount of the total amount paid for all contributions for the performance of the service. If the total is in the amount of \$10,000 or more.

To be in a state of amnesia, then, is to be in a state of direct or indirectly, but legal, medical, or religious, nonrecognition, acceptance, or recognition. Emotional, rational, and intellectual, characteristically, as a defense, or, as a motive, or a symptom, or a result, appears in the thinking, perception, action, belief, and hospital or social practices, that is, in the ways and for the long ways, in public and private, in the course of human behavior. That is, in the state of amnesia, the person is in a state of amnesia.

bair, consultants, actuaries, investigators, inspectors, and efficiency engineers. The enumeration of these kinds of payments should not be understood as excluding other payments for services not excluded below.

To be excluded are: Rent of buildings or other property; taxes payable to the Federal, State, or local government; payments for heat, light, power, telegraph, and telephone service; and payments to other carriers on the basis of haulage charges, as well as other payments for services which both as to their nature and amount may reasonably be regarded as ordinarily connected with the routine operation, maintenance, or construction of a pipeline, but any special and unusual payments for services should be reported.

If not convenient, this schedule may be filled out for a group of companies identified in one system, and shown only in the report of the principal company in the system, with reference thereto in the reports of the other companies.

If any doubt exists in the mind of the reporting officer as to the reportability of a type of payment, request should be made for a ruling before filing the report.

Name of donor, and address	Nature of service	Amount of payment (in \$)
Molokai Land Corporation	Services in connection with Operating Management	75 200

591. IMPORTANT CHANGES DURING THE YEAR

Hereunder state the following matters, numbering the statements in accordance with the inquiries, and if no changes of the character below indicated have occurred during the year, state that fact.

1. All important physical changes not elsewhere provided for.
2. All important financial changes not elsewhere provided for.
3. All changes in and all additions to franchise rights, describing fully (a) the actual consideration given therefor, and stating (b) the parties from whom acquired; if no consideration was given, state that fact.
4. All additional matters of fact not elsewhere provided for which the respondent may desire to include in its report.

1. None

2. None

3. None

4. None

VERIFICATION

The foregoing report must be verified by the oath of the officer having control of the accounting of the respondent. It should be verified, also, by the oath of the president or other chief officer of the respondent, unless the respondent states on the last preceding page of this report that such chief officer has no control over the accounting of the respondent. The oath required may be taken before any person authorized to administer an oath by the law of the State in which the same is taken.

OATH

(To be made by the officer having control of the accounting of the respondent)

State of Texas
County of Dallas

C. R. Thompson

(Insert here the name of the affiant)

makes oath and says that he is Secretary - Treasurer

(Insert here the official title of the affiant)

of Cook Inlet Pipe Line Company

(Insert here the exact legal title or name of the respondent)

that it is his duty to have supervision over the books of account of the respondent and to control the manner in which such books are kept; that he knows that such books have, during the period covered by the foregoing report, been kept in good faith in accordance with the accounting and other orders of the Interstate Commerce Commission, effective during the said period; that he has carefully examined the said report, and to the best of his knowledge and belief the entries contained in the said report have, as far as they relate to matters of account, been accurately taken from the books of account and are in exact accordance therewith; that he believes that all other statements of fact contained in the said report are true, and that the said report is a correct and complete statement of the business and affairs of the abovesigned respondent during the period of time from and including

January 1, 1970, to and including December 31, 1970

C. R. Thompson
(Signature of affiant)

Subscribed and sworn to before me, a Notary Public

, in and for the State and county

above named, this day of March

, 19 71

My commission expires

My commission expires
June 1, 1971

D. C. Kennedy
(Signature of officer authorized to administer oaths)
D. C. KENNEDY, Notary Public
In and for Dallas County, Texas

Use an
L.S.
impression seal

SUPPLEMENTAL OATH

(By the president or other chief officer of the respondent)

State of Texas
County of Dallas

G. A. Seymour

(Insert here the name of the affiant)

makes oath and says that he is Vice President

(Insert here the official title of the affiant)

of Cook Inlet Pipe Line Company

(Insert here the exact legal title or name of the respondent)

that he has carefully examined the foregoing report, that he believes that all statements of fact contained in the said report are true, and that the said report is a correct and complete statement of the business and affairs of the abovesigned respondent during the period of time from and including

January 1, 19 70, to and including December 31, 19 70

G. A. Seymour
(Signature of affiant)

Subscribed and sworn to before me, a Notary Public

, in and for the State and county

above named, this day of March

, 19 71

My commission expires

My commission expires
June 1, 1971

D. C. Kennedy
(Signature of officer authorized to administer oaths)
D. C. KENNEDY, Notary Public
In and for Dallas County, Texas

Use an
L.S.
impression seal

AGO 531773

EXAMINATIONS

[illegible]

COMPUTATIONS

[illegible]

CORRESPONDENCE

[illegible]

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[illegible]

AGO 531774

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TESTIMONY
of
E. L. PATTON
at
Juneau, Alaska
March 1972

E. L. PATTON

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, MY NAME IS EDWARD L. PATTON AND I APPEAR HERE TODAY IN RESPONSE TO YOUR INVITATION TO CONSIDER WITH YOU SENATE BILLS 294 (THE JOINT PIPELINE IMPACT COMMITTEE'S LEASING BILL), 313 (THE R.O.W. LEASING BILL INTRODUCED AT THE REQUEST OF THE GOVERNOR), AND 315 (THE ALASKA OIL & GAS TRANSPORTATION COMMISSION BILL).

AS MOST OF YOU KNOW, I AM AN ENGINEER BY PROFESSION AND HAVE BEEN ASSOCIATED WITH THE OIL INDUSTRY FOR ABOUT 34 YEARS IN VARIOUS PROFESSIONAL AND MANAGERIAL ASSIGNMENTS HAVING TO DO WITH DESIGN, CONSTRUCTION AND OPERATION OF OIL REFINERIES, PETROCHEMICAL PLANTS, AND NOW A PIPELINE. THE PAST 10-12 YEARS HAVE BEEN ENGAGED PRIMARILY IN BRINGING TO FRUITION SO-CALLED "GRASS ROOTS" PROJECTS IN ENVIRONMENTALLY SENSITIVE AREAS BOTH OVERSEAS AND DOMESTICALLY. OBVIOUSLY, IN THESE YEARS I HAVE HAD TO WORK WITH MANY GOVERNMENT ENTITIES AND THE VAST MAJORITY HAVE TRIED TO BE HELPFUL.

MY REMARKS TODAY ARE FROM THE STANDPOINT OF ALYESKA PIPELINE SERVICE COMPANY, THE COMPANY WHICH WAS FORMED IN 1970 TO DESIGN, CONSTRUCT AND OPERATE THE TRANS ALASKA PIPELINE. HOWEVER, IT IS PROBABLY INEVITABLE THAT SOME OF MY THINKING IS TEMPERED BY THE BROAD BUSINESS EXPERIENCE ACQUIRED OVER THE YEARS.

AS THESE COMMITTEES KNOW, ALYESKA PROPOSES TO CONSTRUCT A 48" DIAMETER PIPELINE FROM PRUDHOE BAY TO VALDEZ. THE LINE WOULD BE MOSTLY OVER FEDERAL LAND, BUT SOME STATE AND PRIVATE LAND IS INVOLVED. I MENTION THIS BECAUSE IT IS IMPORTANT TO REMEMBER THAT OTHER ENTITIES BESIDES THE STATE ARE INVOLVED, AND WHAT THE STATE DOES IS LIKELY TO BE ATTEMPTED BY OTHER ENTITIES AND ALL OF THESE POSSIBLE ACTIONS HAVE TO BE CONSIDERED IN LIGHT OF OUR DESIGN, CONSTRUCTION, OPERATION AND ECONOMICS.

YOU HAVE HEARD FROM OTHER WITNESSES THE OPINION THAT, IF PASSED, STATE PIPELINE REGULATORY BILLS IN THEIR PRESENT FORM WOULD BE FOUND UNCONSTITUTIONAL. CONSTITUTIONALITY IS NOT MY AREA OF EXPERTISE, BUT I CAN POINT OUT THAT UNTIL THE LEGAL ARGUMENTS HAD BEEN ADJUDICATED, ALYESKA WOULD HAVE TO CONDUCT ITSELF IN A MANNER WHICH WOULD HAVE US IN CONFORMITY WITH BOTH THE I.C.C. REGULATIONS AND WHATEVER FORM THE STATE LAW MIGHT TAKE. I CAN ASSURE YOU THAT THE EXERCISE WILL, BEYOND ANY DOUBT, DETRACT FROM OUR CONSTRUCTIVE EFFORTS, WILL INCREASE OUR MANPOWER REQUIREMENTS, AND WILL RESULT IN SCHEDULE DELAYS -- ALL OF WHICH ESCALATE COSTS.

AMONG THE STAFF ARGUMENTS FOR SB-294 WAS A LENGTHY ONE FOR INVOLVING THE STATE IN PIPELINE ROUTE SELECTION. THE ARGUMENTS SAID SUCH STATE INVOLVEMENT WOULD CONTROL THE ENVIRONMENTAL IMPACT, EXPLOIT THE LOCAL LABOR MARKETS, PROMOTE GENERAL FACILITIES (AIRPORTS, ROADS AND COMMUNICATIONS), CATALYZE THE ECONOMIC DEVELOPMENT IN OTHER SECTORS AND OPTIMIZE THE CONSTRUCTION SCHEDULE.

ALL OF THOSE ARGUMENTS OVERLOOK THE FUNDAMENTAL ENGINEERING OBJECTIVE OF ROUTE SELECTION AND THAT IS TO BUILD A SAFE AND EFFICIENT PIPELINE. SAFE AND EFFICIENT MEANS SOUND ENGINEERING AND ECONOMICS GIVING DUE RECOGNITION TO THE SAFEGUARDING OF THE ENVIRONMENT.

NO ALASKAN SHOULD LOSE SIGHT OF THE BASIC OBJECTIVE OF THE ALYESKA PROJECT, AND THAT IS TO TRANSPORT OIL -- NOT TO BUILD ROADS OR AIRPORTS OR ANYTHING ELSE UNLESS THEY SERVE A PURPOSE TO THE PIPELINE; BUT EVEN SO, OUR RECORD OF VOLUNTARY COOPERATION WITH THE STATE IS GOOD, AS EVIDENCED BY THE AGREEMENTS ON THE YUKON BRIDGE AND THE HIGHWAY NORTH OF THE YUKON.

FRANKLY, I AM AT A LOSS TO KNOW HOW ROUTING A TRUNK PIPELINE UNDER ANY SET OF RULES OTHER THAN SOUND ENGINEERING IS GOING TO DO ANYTHING OTHER THAN INCREASE THE COST OF THIS PROJECT.

AS FOR THE PROVISIONS CONCERNING PERSONAL AND EQUIPMENT SAFETY AND PROTECTION OF THE ENVIRONMENT, I QUESTION THAT THE STATE HAS THE MANPOWER AND EXPERTISE IN THESE AREAS THAT ALYESKA HAS. YOU HAVE BUT TO GLANCE AT THE LAST TWO REFINERIES I HAVE BEEN INVOLVED WITH TO KNOW WHAT PRIVATE INDUSTRY CAN AND DOES DO ENVIRONMENTALLY AND AESTHETICALLY IN THE ABSENCE OF ANY GOVERNMENT REGULATION BEYOND THE SETTING OF LOCAL AIR AND WATER QUALITY STANDARDS. AND AS FOR PERSONAL AND EQUIPMENT SAFETY, I'LL STACK THE RECORD OF THE U.S. OIL INDUSTRY AGAINST THAT OF ANY GOVERNMENT ENTITY ANYWHERE WITH THE POSSIBLE EXCEPTION OF N.A.S.A. THE FACTS OF LIFE ARE THAT WE WILL BE HELD RESPONSIBLE BY THE FEDERAL GOVERNMENT FOR THE SAFE CONSTRUCTION AND OPERATION OF THE PIPELINE AND FOR THE PROTECTION OF THE ENVIRONMENT. THESE RESPONSIBILITIES ARE CLEARLY SET FORTH IN THE STIPULATIONS WHICH WILL BE PART OF ANY D.O.I. PERMIT. HOWEVER, EVEN WITH THESE SPECIAL STIPULATIONS, WE ARE STILL SUBJECT TO THE PROVISIONS OF THE FEDERAL PIPELINE SAFETY ACT, AND WE WOULD EXPECT THAT ACT TO PRE-EMPT ANY REASONABLE STATE SAFETY ACT. WE RECOGNIZE THAT, IN MANY LOCATIONS, THE FEDERAL AND STATE SAFETY AGENCIES REACH WORKING AGREEMENTS SO THAT DUPLICATION OF EFFORT IS MINIMIZED. THIS IS A REASONABLE APPROACH, SO WE DO NOT SEE THE VALIDITY OF THE ARGUMENTS THAT THE STATE NEEDS BETTER CONTROL OF SAFETY AND ENVIRONMENTAL ASPECTS THAN IT ALREADY HAS.

AS A MATTER OF FACT, WHAT THIS PROJECT BADLY NEEDS IS LESS -- NOT MORE -- REGULATION. BECAUSE OF THE GREAT FRUSTRATIONS GENERATED IN THE PAST TWO YEARS, IT HAS ALREADY BECOME VERY DIFFICULT TO RECRUIT AND KEEP THE HIGH-QUALITY PEOPLE WE NEED IN THIS PROJECT. TO PROVIDE STILL ANOTHER GROUP OF AGENCIES LOOKING OVER OUR SHOULDER JUST GETS THAT MUCH CLOSER TO AN INTOLERABLE SITUATION, AND IT INEVITABLY RAISES COSTS AND CREATES DELAYS.

ONE OF THE ARGUMENTS ADVANCED FOR STATE CONTROL IS THAT SUCH CONTROL WILL PROMOTE INCREASED JOB OPPORTUNITIES FOR ALL ALASKANS. SB-294 EVEN GOES SO FAR AS TO SAY "ACHIEVE FULL EMPLOYMENT". I LIKE TO THINK YOU ARE NOT TALKING ABOUT A STATE POLICY FURTHERING FEATHERBEDDING, BUT THE BILL CAN BE INTERPRETED THAT WAY. I HAVE TESTIFIED TO THE JOINT PIPELINE IMPACT COMMITTEE THAT WE INTEND TO MAXIMIZE THE HIRING OF RESIDENT ALASKANS FOR BOTH CONSTRUCTION AND OPERATION TO THE EXTENT THAT RESIDENT ALASKANS ARE QUALIFIED OR CAN BE QUALIFIED IN REASONABLE TIME TO HANDLE THESE JOBS. WE INTEND TO MAXIMIZE THE EMPLOYMENT OF RESIDENT ALASKANS FOR THE VERY ELEMENTARY REASON THAT IT WOULD BE STUPID TO DO OTHERWISE. ALASKANS ARE ACCLIMATED TO THE ALASKAN ENVIRONMENT AND CULTURE; THEY ARE MORE READILY AVAILABLE FOR INTERVIEWS AND TESTING AND TRAINING; AND THEY DO NOT POSE THE PROBLEMS ASSOCIATED WITH HAVING TO PROVIDE PERIODIC VISITS TO THE "LOWER 48". BUT I HAVE SAID BEFORE -- AND I WILL CONTINUE TO REMIND YOU -- THAT WE WILL NOT EMPLOY UNQUALIFIED PEOPLE IN EITHER CONSTRUCTION OR OPERATIONS AND THAT WE -- IN HAVING RESPONSIBILITY FOR THE SAFE AND EFFICIENT CONSTRUCTION AND OPERATION OF THE FACILITY -- WILL BE THE JUDGE AS TO JOB QUALIFICATIONS. SO, I SEE MANY PROBLEMS ASSOCIATED WITH ATTEMPTING TO LEGISLATE RESIDENT ALASKANS INTO JOBS. PERHAPS THE MOST USEFUL EFFORT THE LEGISLATURE MIGHT MAKE IN THIS AREA IS TO ASCERTAIN THAT RESIDENTS ARE NOT DENIED JOB OPPORTUNITIES BECAUSE OF RESTRICTIVE WORK PRACTICES.

TO THIS POINT, I HAVE TOUCHED ON THE AREAS OF ENGINEERING, SAFETY AND PEOPLE PROBLEMS AND I HAVE NOT BEEN ABLE TO IDENTIFY INSTANCES IN WHICH THE PROVISIONS OF 294, 313 AND 315 WOULD ASSIST IN ANY WAY GETTING THIS OR ANY OTHER PIPELINE BUILT MORE QUICKLY OR AT LOWER COST.

THE OTHER MAJOR AREA INVOLVED IS IN R.O.W. LEASING. AS CONCERNS R.O.W.'S, MOST STATES OF THE U.S. AND THE FOREIGN COUNTRIES I HAVE DEALT

WITH RECOGNIZE THAT THE PROVISION OF RIGHTS-OF-WAY IS TO THE STATE'S ADVANTAGE AS IT RESULTS IN THE AVAILABILITY OF A TRANSPORTATION SYSTEM WHICH, IN TURN, BENEFITS THE ECONOMY AND PEOPLE OF THE STATE. AGAINST THESE OBJECTIVES, MOST STATES HAVE MADE R.O.W. PROCUREMENT RATHER SIMPLE AND INEXPENSIVE. THE UPPER LIMIT OF R.O.W. ACQUISITION COST HAS BEEN, OF COURSE, THE PRICE OF OUTRIGHT PURCHASE OF THE LAND; BUT WHERE FEE OWNERSHIP IS NOT AVAILABLE, THE UPPER LIMIT OF R.O.W. LEASE PAYMENTS HAS BEEN A SINGLE PAYMENT EQUAL TO ABOUT ONE-HALF THE APPRAISED VALUE OF THE LAND FOR BURIED PIPELINE AND A SINGLE PAYMENT EQUAL TO THE FULL APPRAISED LAND VALUE FOR ABOVEGROUND LINES. FROM THESE UPPER PRICES, THE RATES FOR "LOWER 48" R.O.W. LEASES DROP OFF TO VERY MINOR AMOUNTS AS SHOWN BY THE TABLES WHICH I WILL ENTER INTO THIS RECORD.

HOWEVER, THE BILLS WE ARE NOW CONSIDERING HAVE DEPARTED FROM ANY CONSIDERATION RELATED TO ACTUAL LAND VALUES AND HAVE TAKEN THE FORM OF REVENUE MEASURES. INDEED, IF THEY ARE REALLY REPRESENTATIVE OF THE ATTITUDE OF THIS LEGISLATIVE BODY, I CAN ONLY FORECAST THAT BUSINESS AND INDUSTRY WILL BE DISCOURAGED FROM INVESTING IN ALASKA. SB-313, FOR EXAMPLE, WOULD ESTABLISH AN ANNUAL CHARGE OF 1/20 OF GROSS PIPELINE REVENUE PLUS \$656/ACRE. WITHOUT HAVING TO ESTABLISH PRECISELY WHAT GROSS REVENUE WILL BE OR WHAT THE EXACT AMOUNT OF STATE LANDS WILL BE, THAT FORMULA EQUATES TO AN ANNUAL CHARGE OF SEVERAL THOUSAND DOLLARS PER ACRE. WHAT MAKES IT EXASPERATING IS THAT WE ALREADY HAVE A SOLID HISTORY OF FEE TITLE ACQUISITION ALONG THE R.O.W. AT A FRACTION OF THAT PER ACRE.

SB-294 IS EVEN MORE EXPENSIVE. AN EXAMPLE I HAVE SEEN RESULTED IN A RENTAL OF OVER \$11,000,000/YEAR, OR BETWEEN \$7,000 AND \$12,000/YEAR/ACRE (DEPENDENT UPON THE ULTIMATE STATE MILEAGE). NUMBERS LIKE THESE WOULD, OF COURSE, COMMAND GREAT RESPECT IN DOWNTOWN

LOS ANGELES. OBVIOUSLY, IF ANY FORMULAS LIKE THESE PASS THE LEGISLATURE, IT WOULD BE IN OUR INTEREST TO ACQUIRE FEE TITLE TO ALL OF THE STATE MILEAGE INVOLVED.

SOMEONE HAS ADVANCED THE ARGUMENT THAT THE "LOWER 48" LEASING
* FORMULAS AVERAGE OUT TO A R.O.W. COST OF ABOUT 4% OF THE COST OF AN AS-BUILT LINE, SO ALASKA SHOULD DO AT LEAST AS WELL. IT'S A RATHER WEAK ARGUMENT BECAUSE CONSTRUCTION COSTS IN THE REMOTE AREAS OF ALASKA ARE AT LEAST 2-3 TIMES THE "LOWER 48" AVERAGE, WHEREAS THOSE REMOTE AREA LAND VALUES ARE PRACTICALLY NEGLIGIBLE COMPARED WITH "LOWER 48" LAND VALUES. IN EFFECT THE SB-294 FORMULA SAYS THE MORE DESOLATE AND FOREBODING LAND IS, THE MORE ONE SHOULD PAY FOR IT. I DON'T AGREE.

MR. CHAIRMAN, YOU HAVE ASKED ME "WHAT CAN ALASKA DO TO HELP?". I HAVE ANSWERED THAT QUESTION IN A NEGATIVE SENSE TO THIS POINT. ALASKA HAS ALREADY HELPED. THE CONCERNED STATE AGENCIES HAVE CONTRIBUTED GREATLY TO THE WILDLIFE AND ENVIRONMENTAL STUDIES, AND THEY ARE WORKING TOWARD MEANINGFUL AIR AND WATER QUALITY STANDARDS. YOUR UNIVERSITY HAS BEEN OF IMMEASURABLE HELP IN THE SOLUTION TO MANY OF OUR PROBLEMS. I THINK THIS LEGISLATURE CAN ASSIST NOT ONLY THIS PROJECT, BUT THOSE TO COME IN THE FUTURE, BY CONTRIBUTING TO STATUTES WHICH ARE EASILY UNDERSTANDABLE, WHICH ARE EMINENTLY LOGICAL AND FAIR, AND WHICH ARE NOT SUBJECT TO CHANGE BECAUSE OF POLITICAL OR MONETARY EXPEDIENCY. NO ONE IS GOING TO MAKE MAJOR INVESTMENTS IN THIS STATE WITHOUT ASSURANCE THAT THAT INVESTMENT WILL NOT BE REGULATED OUT OF EXISTENCE.

ALL OF YOU KNOW OF OUR INTENSE FRUSTRATION. ANYTHING WHICH MIGHT RELIEVE THAT FRUSTRATION WILL BE HELPFUL. WE WANT TO GET GOING, SO WE URGE YOU -- IN FOOTBALL LANGUAGE -- TO GET OUT THERE AND BLOCK FOR US.

ELP/n1
3/3/72

E. L. PATTON

* Attachment

AGO 531782

LARGE PIPELINE RIGHT-OF-WAY LEASE RATES

STATE OWNED LANDS

(All Rates Shown Are for Single Payments for
Life of Project Unless Otherwise Indicated)

	<u>Basic Approach</u>	<u>Rate \$ Per Acre</u>	<u>Rate \$ Per Mile</u>	<u>Rate Other</u>	<u>Remarks</u>
Arizona	Negotiated	10-12			10-year Period Perpetual Lease May Be Negotiated During Primary Term
California		400			Annually
Indiana	Standard Rate		3200		
Louisiana	Standard Rate		3200		
Michigan	Standard Rate		3200 320		Developed Areas Undeveloped Areas
Minnesota	Standard Rate		320		
Montana	Standard Rate		200		
New Mexico	Appraisal	15			
Texas					
General	Standard Rate		480		10-year Period
University	Standard Rate		1120		10-year Period
Washington	Negotiated	10			
Wisconsin	Standard Rate		320		
B.L.M.	Standard Rate		5		

ELP/n1
3/6/72

ALTHOUGH IT IS NOT A PART OF MY PREPARED STATEMENT WHICH WILL BE
HANDLED OUT, I WOULD LIKE TO COMMENT ON SOME REMARKS MADE BY
MR. GILDEHOUSE YESTERDAY. IN PART OF HIS TESTIMONY, HE ALLUDED
TO THE FACT THAT IT WOULD BE A BASIC REQUIREMENT OF THE STATE
OWNERSHIP CASE THAT ALYESKA AGREE TO AND EXECUTE A CONTRACT
CALLING FOR GUARANTEED CONSTRUCTION AND OPERATING PERFORMANCE.
THIS IS A SUBJECT THAT I CAN ADDRESS WITH SOME FAMILIARITY. AS
OF 1966 WHEN I ATTEMPTED TO NEGOTIATE A LUMP-SUM CONTRACT (AND
THESE ARE THE WORDS USED BY MR. GILDEHOUSE) FOR A PROJECT AT THAT
TIME INVOLVING ABOUT \$140 MILLION, THE PROSPECTIVE CONTRACTORS
INDICATED THEIR INABILITY TO ACCEPT THIS RISK BECAUSE THERE HAD
NOT UP TO THAT TIME EVER BEEN A LUMP-SUM CONTRACT OF THAT MAGNITUDE,
AND THE PROSPECTIVE CONTRACTORS DID NOT HAVE THE FINANCIAL RESOURCES
TO UNDERTAKE THAT KIND OF RISK. WE ARE NOW TALKING ABOUT A FACILITY
COSTING ABOUT 20 TIMES AS MUCH AS THAT 1966 CONTRACT, AND THE STATE
OR THE STATE'S REPRESENTATIVES ARE IMPLYING THAT WE SHOULD TAKE ON
THIS LUMP-SUM OBLIGATION; AND IT HAS BEEN SAID IN A MANNER WHICH
WOULD IMPLY THAT THIS DOES NOT REQUIRE THE FULL FAITH AND CREDIT OF
THE OIL COMPANIES. THIS JUST CANNOT BE. FOR ME, AS PRESIDENT OF
ALYESKA, TO AGREE TO A LUMP-SUM CONTRACT I WOULD FIRST HAVE TO ADD
A CONTINGENCY TO THE COST ESTIMATE TO BE SURE THAT I HAD COVERED ALL
OF THE UNFORESEEN POSSIBILITIES -- AND THE HISTORY OF THIS PROJECT HAS
SHOWN THAT THERE ARE MANY -- AND, THEN, I'D HAVE TO ADD A PROFIT WHICH
IS NOT NOW UNDER CONTEMPLATION BECAUSE IF WE WERE GOING TO EXPOSE THE
OWNERS OF ALYESKA TO THIS RISK THEY THEN DESERVE A PROFIT. AND, I
MIGHT ALSO ADD THAT THE FORCE MAJEURE PARAGRAPH IN THIS CONTRACT WOULD
BE SOMETHING THAT HAS NOT BEEN SET UP TO NOW, BECAUSE IT WOULD HAVE
TO INVOLVE ENVIRONMENTAL CONTINGENCIES AND PROSPECTIVE LAWSUITS IN
ADDITION TO THE NORMAL FORCES OF NATURE, ACTS OF GOD, ACTS OF GOVERNMENT
ETC.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
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HOUSE BILLS 569 and 570

STATE OR AUTHORITY FINANCING OF TRANS-ALASKA PIPELINE

LEGAL ASPECTS

Testimony of Joseph R. Cortese, Squire, Sanders &
Dempsey, Bond Attorneys, Cleveland, Ohio (by invitation)

Introduction.

The legal aspects of the financing of the pipeline by the State or a state authority are important considerations, for the legal problems involved materially enlarge the serious doubts as to the ability of the State to provide public financing of the facility. However, as we discuss those legal problems, it should be borne in mind that even if there were no legal questions concerning state financing, a most serious, persistent and unavoidable concern is that the State simply cannot market this massive volume of financing within the time frame required. Cogent testimony has been presented on that aspect. At this point some of the legal problems will be discussed to further illustrate the sincere concerns of the producers that the State financing package being considered would cause further substantial delays and ultimately founder.

A. Test Litigation - Substantial Questions.

Alaska, in recent years, has undertaken bond financing in relatively novel areas, such as through the Alaska State Mortgage Association, Alaska State Development Corporation, and for the Alaska Mortgage Adjustment Plan in connection with the 1964 earthquake. In each of these instances the State has advisedly taken the basic questions of law to the Alaska Supreme Court to remove any doubt that the bonds would be valid when issued so that concerns as to legality would not further burden or thwart the marketing of them. It seems most likely that such test litigation would be important with reference to House Bills 569 and 570.

Among the legal propositions which would need to be negated by such litigation are the following:

(1) That the use of the state credit to finance the pipeline project is unwarranted in view of the availability of private financing, and use of state credit for such a facility in the circumstances would not serve a public purpose as required by Article IX, Section 6, Alaska Constitution.

(2) That the State guarantee of the bonds of the Trans-Alaska Authority provided for in House Bill 569 would create a State debt contrary to Article IX, Section 8.

(3) That the leasing of the pipeline by the Authority to the State as provided in House Bill 569 would result in a State debt under Article IX, Section 8, not qualifying under the exceptions provided in Section 11.

(4) That House Bill 569 would be a local or special act in violation of Article II, Section 19, Alaska Constitution.

(5) That House Bill 569 involves an unlawful delegation of legislative powers to the proposed Trans-Alaska Authority and to other executive and administrative officers.

These and other legal aspects of House Bills 569 and 570 will be discussed further below.

The course and outcome of such test litigation cannot be reliably predicted. Since the proposed State ownership and financing of the pipeline may be an active public issue, this may well be different from the test litigation of the past. It is conceivable that civil and criminal actions could interfere in the litigation, such that the scheduling of the litigation might not be as rapidly expected. Motions, demands for interpretation of executive orders, and similar litigation, could produce extraordinary delays. There may be parallel litigation in the State Supreme Court and litigation conducted in Federal and State courts. Such is not rare, for example, when elsewhere has been the case. It is especially likely if involves a controversial issue, as with the Interstate Commerce Act, which took over 2 years, and Connecticut and Louisiana statutes, which took over 2 years each.

B. Independent Litigation - The No-Litigation Requirement for Bond Financing.

Even if the State and its bond counsel should decide that test litigation is not necessary, the basis for adverse legal contentions is sufficiently present to indicate that others, acting independently of such determination, might nevertheless file litigation. This would pose a very serious problem in the marketing of the bonds because of the normal requirement for successful marketing that a no-litigation certificate be delivered with the bonds. The no-litigation certificate is to the effect that no litigation is pending questioning the validity of the bonds, the authority under which they are to be issued, or the authority to provide for payment from the general or special funds committed thereto. The simple point of such certificate requirement is that a prospective bond purchaser does not want to buy litigation. In this context it would appear that the pendency of such litigation would preclude giving the accepted form of certificate and thereby prevent the marketing of the bonds.

C. Four Types of Bonds.

House Bills 569 and 570 would authorize what might be depicted as four categories of bonds:

(1) General obligation bonds of the State, backed by the full faith and credit and the taxing power of the State in the normal fashion;

(2) Bonds of the Trans-Alaska Authority guaranteed by the State;

(3) Bonds of the Trans-Alaska Authority backed by the general credit of the State through the device of leasing the pipeline to the State with the State paying rentals from its general funds in sufficient amounts to subsidize any operating losses, pay principal and interest on the bonds and establish and maintain reserves to further secure the bonds.

(4) Bonds of the Authority payable solely out of such net operating revenues of the Authority as might be generated over the life of the bonds, with the bondholders taking the full risk of any inability to pay by reason of inadequacy of revenues resulting from delays or interruption in construction, inadequacy of funds to complete the project, any interruption in operation, or changed economic conditions.

D. Public Purpose Question - Is There A Need For The State To Use Its Credit?

In view of the fact that private capital is ready, willing and able to finance the pipeline project, there is a substantial question whether the use and consequent burdening of the State's credit for this project would be for a public purpose within the constitutional prohibition against use of the credit of the State for other than a public purpose.

Alaska Constitution, Article IX, Section 6, provides:

"No tax shall be levied, or appropriation of public money made, or public property transferred, nor shall the public credit be used, except for a public purpose."

In Ault v. Alaska State Mortgage Association, 387 P.2d 698 (1963), the Alaska Supreme Court held that the "public purpose" element of public purpose in an act of the Legislature did not foreclose determination by the Court of the question of whether the act would serve a public purpose, and the Supreme Court remanded the case to the Superior Court for a taking of evidence pertinent to the question. There, the Alaska State Mortgage Association was to issue revenue bonds to provide moneys in the secondary mortgage market to stimulate housing construction. The Supreme Court said it wanted to see evidence as to the scarcity or lack of private funds in the secondary mortgage market, the effect thereon of termination of a Federal project, and how the Association would reduce or eliminate adverse effects.

After the case was remanded to the Superior Court and detailed testimony taken, upon a second appeal the Supreme Court affirmed the decision, two and one-half years after its original decision. Ault v. Alaska State Mortgage Association, 440 P.2d 249 (1966). The Court ruled that a public purpose existed because there was a need for public financing to give effect to the project, as shown by the evidence, and that the project would be a public purpose because the Association would make money available to the State which would not be obtained in the private market.

Similarly, in Alaska State Mortgage Association v. State of Alaska, 376 P.2d 717 (1962), the Alaska Supreme Court held that the State's obligation to provide financing for the project was a public purpose, and that the project would be a public purpose because the Association would make money available to the State which would not be obtained in the private market.

In Wright v. City of Palmer, 458 P. 2d 376 (1970), the City's issuance of general obligation bonds to construct a plant to be leased to a manufacturer was approved upon evidence that the object and effect would be to encourage industrial development which was urgently needed because the City's economic growth was nil, high year-round unemployment existed, jobs had been lost by the closing of mining and lumbering enterprises, there was no manufacturing in the City, and businesses were moving out of the City. The need for the City itself to take an active role in financing was apparent.

It has been held that industrial development financing serves no public purpose where the facts make it plain that private funds will provide for the project without the injection of public financing; that no public purpose is served by substituting public credit for private funds. Manning v. Fiscal Court of Jefferson County, 405 S.W. 2d 755 (Ky. 1966). There private capital had already been committed to the facility.

That result appears to be consistent with the approaches taken by the Alaska Supreme Court in the cases mentioned above.

From an examination of the proposed statement of legislative findings and policies contained in House Bill 569, it is difficult to perceive any necessity whatever for State financing in order to achieve the objects stated, especially when it is apparent that the planning, development, and expertise represented in Alyeska Pipeline Service Company are essential to the early achievement of the pipeline project consistent with those objectives, and in view of the substantial questions as to the practical ability of the State to finance the project. It should be borne in mind that private capital has already spent or encumbered a half billion dollars for this pipeline project, and is ready, willing and able to provide the balance needed.

In short, the ability to obtain the objectives through private financing and ownership presents a material question of whether the use of the State's credit for this project is unwarranted and impermissible under the Alaska Constitution.

E. State Guarantee of Authority Bonds - Unconstitutional State Debt.

The State guarantee to be placed upon an unlimited amount of bonds of the Trans-Alaska Authority merely upon signature by the Governor pursuant to Section 44.58.260 of House Bill 569, would constitute State debt which is not authorized under either Section 8 or 11 of Article IX, Alaska Constitution.

Section 8 of Article IX prohibits State debt except as ratified by the voters of the State with certain exceptions not relevant here. Section 11 provides an exception for revenue bonds issued by a public enterprise or public corporation "when the only security is the revenues of the enterprise or corporation." The State guarantee clearly would provide security beyond those revenues, and would be inconsistent with this Section 11.

The bill itself acknowledges the creation of State debt. Section .260(e) states, "The state is liable on notes or bonds guaranteed under this section but is not liable on notes or bonds not guaranteed by the state, which may not be debt of the state." It might be noted in this connection that the section would not inhibit issuance of non-guaranteed bonds on a parity with the guaranteed bonds so that revenues could be siphoned off for the non-guaranteed bonds leaving the State with full liability on the guaranteed bonds. No provision is made as to how the State would make good on its guarantees. Perhaps this omission is compelled by the Constitution's prohibition against the dedication of any tax or license to any special purpose. Article IX, Section 7. Thus, the entire financial resources of the State would be obligated. It should be noted that the annual principal and interest requirements on \$4.5 billion of bonds would be approximately equal to the total annual revenues of the State at the present time.

House Bill 570, providing for ratification of \$3,500,000,000 general obligation bonds of the State to be issued by the State Bond Committee, would not serve to give constitutional authorization for the guarantee of revenue bonds of the Trans-Alaska Authority. Further, it is questionable whether Article IX, Section 6, contemplates any State debt created by way of guarantee. Rather, it may be that an amendment of the Constitution would be needed for that purpose.

In any event, it seems clear that a State guarantee of the Authority bonds could not be given without authorization thereof by vote of the people, and any attempt to vest such power in the Trans-Alaska Authority and the Governor merely by legislative act would be unconstitutional.

F. State Lease Rental Commitment - Unconstitutional State Debt.

The provisions of Section .250 of House Bill 569 for the Trans-Alaska Authority to lease the project to the State and for the State to operate or sublease the project pose serious questions as to whether State debt would be unconstitutionally created thereby.

Section .250 would authorize the Governor to enter into such a lease in connection with the Authority's financing of the project, and to agree that the State would pay the Authority sufficient amounts to pay the principal and interest on the bonds, the operating and maintenance expenses of the project, and to provide reserves for debt service and operating and maintenance expenses. No limitation of amount is provided and the lease may be for any agreed term or may be unlimited in time. Under the lease, the Governor may also commit the State to subsidize costs of the project in any amount agreed upon.

No restriction is provided as to the sources of funds of the State which would be needed to pay the rentals.

The only apparent object of these provisions is to place the State in the middle so that purchasers of the Authority's bonds might view the State's credit as standing behind the bonds, and thus obtain the benefit of the State credit without a vote of the people.

Such lease-type financing has been used or tried in other states and has been sustained in some and declared unconstitutional in others as creating a state debt without constitutional authorization. Still other states have adopted constitutional amendments to permit such financing. The validity of such financing has not been determined by the Alaska Supreme Court.

The legal question is clearly presented where a unique single purpose project is involved, such as this crude oil pipeline. For example the Illinois Supreme Court, in Forseyth Building Supply, Inc. v. Illinois Highway Trust Authority, 258 N.E. 2d 569 (1970), held invalid a plan whereby the Authority would issue bonds, which the act said were not to be deemed obligations of the State, to finance highways, bridges and related facilities. The Authority was to pay off its bonds from its own revenues, but its principal source was to be rentals to be received from the State through leasing the projects to the State. The State was not to be committed to pay rentals except as periodically appropriated, and if rentals were not paid the Authority could undertake operation and charge tolls or lease the projects to others.

The Illinois Supreme Court had previously approved that type of financing for various buildings, but here it distinguished those cases as involving the type of facilities which were readily adaptable to other uses so that it could be assumed that other lessees could be found to pay sufficient sums if the State ceased to pay rentals. However, here it was apparent to the Supreme Court that while the State was not legally obligated to continue appropriations, there would be no real alternatives for use of such highway facilities. Thus, the Court concluded that an unconstitutional State debt would be created by such leasing program.

Much the same can be said of the proposed lease commitment of the State of Alaska in connection with the pipeline project; for if at any time the pipeline was not earning enough to cover the debt, there would be no practical way to avoid a burden on the State general fund for there would be no takers for a losing facility which has no other practical use.

Thus with the vast cost, and consequent heavy debt service burden, of this single purpose facility, the type of financing involving a lease commitment by the State poses substantial constitutional questions.

G. Local or Special Law.

House Bill No. 569 should also be considered in light of Article II, Section 19 of the Constitution which provides that "the Legislature shall pass no local or special act if a general act can be made applicable. Whether a general act can be made applicable shall be subject to judicial determination." Provisions of the Bill pertaining to the issuance of bonds and notes, the State guarantee of such obligations, and the

entering into of leases and agreements are all limited to the "project", which is defined in Section 44.58.500 as a pipeline from Prudhoe Bay and adjacent areas to the Port of Valdez and other ports and related facilities.

These key provisions of the bill, therefore, relate only to a single pipeline project, which suggests that the bill is a local and special act when a general act providing for pipeline projects anywhere in the State could be made applicable. This point of law has been the subject of litigation which delayed financing for five years. In *State, ex rel. Saxbe v. Underground Parking Commission*, 155 N.E. 2d 678 (1959), the Ohio Supreme Court held unconstitutional a state providing for the construction and financing of a public parking garage under the grounds of the state capitol building in Columbus under a similar constitutional provision. The applicable provision of the Ohio Constitution, Article II, Section 26, provides in part that "all laws, of a general nature, shall have a uniform operation throughout the state." The court said that the construction of underground parking facilities was a matter which could affect other areas of the state and not just the City of Columbus and that, therefore, the law was a law that dealt with a subject of general nature and was invalid because of its limited application.

Thus, it appears that these important features of House Bill 569 are subject to constitutional challenge and necessitate judicial determination before reliance upon them.

H. Unlawful Delegation of Legislative Powers.

A serious question also exists as to the validity of H.B. No. 569 when considered in relation to Article II, Section 1 of the Alaska Constitution which provides that "the legislative power of the State is vested in a legislature." This bill purports to do more than delegate just rule-making power to an agency or officer, which is a form of permitted delegation of legislative authority, when appropriate standards are provided. *Kelly v. Zamarekello*, 485 P. 2d 906 (1971). This bill is lacking in standards for limitation of rule-making authority, but even more than that, it would take out of the hands of the elected law-making representatives of the people the power to make decisions for the State on matters of the utmost importance concerning State policy and finances.

Consideration of just a few of the more notable examples of attempts to confer unlimited or nearly unlimited powers and discretion upon executive and administrative officers under this bill should suffice to illustrate the manner in which this proposed law might violate Article II, Section 1 of the Alaska Constitution.

1. Section 44.58.055. This section, which is duplicated in identical language in Section 44.58.330, purports to confer on the Authority "sole and exclusive jurisdiction, control and supervision of all pipelines and other transportation facilities for the transportation of oil and natural gas produced in the state," and to authorize the Authority to "do whatever necessary or convenient to carry out its purposes, including without limitation the specific powers enumerated in this chapter." Any such attempt to so regulate and control a pipeline engaged in interstate commerce is clearly violative of the U.S. Constitution. But quite apart from the question whether the State, under the United States or Alaska Constitutions, could assume "sole and exclusive jurisdiction, control and supervision" of the types of facilities named, nowhere in House Bill No. 569 are there to be found any standards or limitations under which the Authority is to be governed in the exercise of this sweeping and all-inclusive grant of power. The entire bill, and this section in particular, would attempt to turn over to an appointed public corporation consisting of three members, which in most matters may act by the votes of two members, power to undertake and carry out, without further action by the legislature of the State, a project which probably would constitute the most massive public works project ever undertaken by any State.

2. Section 44.58.250. This section would authorize the Authority and the Governor, acting on behalf of the State, to enter into leases or agreements for lease of the project by the Authority to the State and for the operation and maintenance of the project by the State. The State could also, acting again through the Governor alone, sublease or enter into any agreement with any person, firm or corporation for the operation and management of the project. A purely permissive provision is made that the amount payable under any lease or agreement between the Authority and the State may include provision for all or any part or share of the amounts necessary to pay debt service on bonds issued to finance the project, to pay costs of operation and maintenance or to

maintain reserves or sinking funds for the purpose of payment of debt service or operation and maintenance. The Governor would also be authorized in such an agreement or lease to commit the State to pay to the Authority, for an unlimited time and in unlimited amounts, the cost of financing the project. No standards or guidelines or restrictions on such leases, subleases and agreements are provided, however, and it would be difficult to imagine a more unlimited grant of discretion to executive or administrative officers than the provision in this section, which is made applicable both to agreements with the Authority and with sublessees or others entered into by the Governor, that "the agreement or lease may be made for a specified or unlimited time on terms and conditions which may be approved by the governor."

3. Section 44.58.260. This section would permit the Authority, by so providing in a bond agreement, to commit the State to guarantee the payment of principal and interest on any bonds or notes issued by the Authority. Even if such a State guarantee were permitted by the Alaska Constitution, this section is of questionable validity in permitting executive and administrative officers, in their unlimited discretion, to make such a guarantee.

These examples of unrestrained power in executive officers are of such vast scope that no truly comparable legislative efforts at delegation of powers can be found in the Alaska cases. Thus, these would appear to be unreliable aspects of the bill in the absence of a court determination addressed directly to them.

Conclusion.

It appears that House Bills 569 and 570 raise many substantial legal problems that could keep a large number of lawyers busy for many years; and there are justifiable concerns that they would do precisely that if enacted. In view of the delays of the project already experienced, and the economic cost thereby to the State, the concerns over legal problems under House Bills 569 and 570 and the further delays they can cause are important considerations for the legislature. Again it should be emphasized that, as previously testified to, even in the complete absence of any legal question, the patent inability of the State or a public corporation of the State to successfully market such a huge volume of bonds in the short time required, presents a direct, practical, and critical problem which strongly indicates that House Bills 569 and 570 are not practical approaches for achievement of the objectives of the State.

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AS A UNIT IN THE ORIGINAL DOCUMENT.

REMARKS OF GEORGE A. SEYMOUR
TO ALASKAN SENATE AND HOUSE COMMITTEES
ON PROPOSED ALASKAN PIPELINE LEGISLATION
WEEK OF MARCH 6, 1972

INTRODUCTION

I AM GEORGE A. SEYMOUR. I AM MANAGER OF PART-INTEREST PIPELINES FOR MOBIL PIPE LINE COMPANY, THE COMMON CARRIER PIPE-LINE AFFILIATE OF MOBIL OIL CORPORATION. I AM AN ENGINEER BY PROFESSION AND HAVE BEEN EMPLOYED BY MOBIL FOR TWENTY-FOUR YEARS, DURING WHICH TIME I HAVE BEEN PRIMARILY ENGAGED IN PIPELINE ENGINEERING AND MANAGEMENT. MOBIL OIL CORPORATION OPERATES COOK INLET PIPE LINE COMPANY UNDER AN AGENCY MANAGEMENT AGREEMENT. I AM A DIRECTOR OF AND HAVE BEEN A VICE-PRESIDENT OF COOK INLET PIPE LINE COMPANY SINCE MARCH, 1970, WITH STAFF RESPONSIBILITY FOR THE OPERATIONS OF THAT COMPANY.

RATIONALE OF TESTIMONY

IN RESPONSE TO YOUR INVITATION TO APPEAR AT THIS HEARING, I WOULD LIKE TO SHARE WITH YOU THAT COMPANY'S OPERATING HISTORY WHICH

WILL, WE FEEL, UNDERSCORE THE ECONOMIC RISK INVOLVED IN THE TRANS ALASKA PIPELINE PROJECT, AND ALSO POINT UP THE SIGNIFICANT DIFFERENCES BETWEEN A COMMON CARRIER CRUDE OIL PIPELINE AND A PUBLIC UTILITY.

DESCRIPTION OF COOK INLET PIPE LINE COMPANY FACILITIES

COOK INLET PIPE LINE COMPANY WAS INCORPORATED IN MARCH, 1966. ITS STOCK IS OWNED BY ATLANTIC RICHFIELD COMPANY, MARATHON OIL COMPANY, MOBIL PIPE LINE COMPANY AND UNION OIL COMPANY OF CALIFORNIA. THE COOK INLET PIPE LINE FACILITIES WERE COMPLETED IN THE FALL OF 1967 TO OPERATE AS A CRUDE OIL PIPELINE SYSTEM ON THE WEST SIDE OF COOK INLET, KENAI BOROUGH, ALASKA. THE MAIN LINE OF THIS PIPELINE SYSTEM CONSISTS OF FORTY-TWO MILES OF TWENTY-INCCH PIPE FROM GRANITE POINT TO DRIFT RIVER. A TERMINAL COMPLEX LOCATED AT DRIFT RIVER CONSISTS OF SEVEN 270,000 BARREL CRUDE OIL STORAGE TANKS, DEBALLASTING AND BALLAST WATER TREATMENT FACILITIES, LIVING QUARTERS, OFFICES AND MAINTENANCE SHOP, AND AN AIRSTRIP AND HANGAR. OIL TRANSPORTED TO THE DRIFT RIVER TERMINAL BY THE PIPELINE IS

LOADED INTO OCEANGOING TANKERS AT A LOADING PLATFORM TWO MILES OFF SHORE AND CONNECTED TO THE ONSHORE TANKAGE BY DUAL THIRTY-INCH SUBMARINE PIPELINES. THIS PIPELINE SYSTEM SERVES FIVE OFFSHORE PRODUCING FIELDS IN COOK INLET -- TRADING BAY UNIT, TRADING BAY FIELD, TEXACO NORTH TRADING BAY FIELD, ATLANTIC NORTH TRADING BAY FIELD, AND GRANITE POINT FIELD. THE LOCATION OF THE PIPELINE FACILITIES AND CONNECTED PRODUCING FIELDS ARE SHOWN ON EXHIBIT I.

CONSTRUCTION OF FACILITIES

DESIGN AND CONSTRUCTION OF THE COOK INLET FACILITIES COMMENCED IN MARCH OF 1966. THE FIRST TANKER WAS LOADED IN NOVEMBER, 1967. THE PIPELINE, THE DRIFT RIVER TERMINAL COMPLEX AND THE TANKER LOADING PLATFORM ARE CONSTRUCTED ON LANDS ACQUIRED FROM THE STATE OF ALASKA. COOK INLET OBTAINED A RIGHT-OF-WAY PERMIT OVER STATE LANDS FOR THE PIPELINE, PURCHASED 898 ACRES OF LAND AT DRIFT RIVER FOR THE TERMINAL SITE, AND ACQUIRED A TIDELANDS LEASE ON 392 ACRES OF THE FLOOR OF COOK INLET ENCOMPASSING THE OFFSHORE TANKER LOADING PLATFORM.

PIPELINE PROJECT JUSTIFICATION

THE ECONOMIC JUSTIFICATION TO CONSTRUCT THE COOK INLET PIPE LINE SYSTEM WAS BASED UPON THE THEN ESTIMATED PROSPECTIVE DISCOVERY OF 800 MILLION BARRELS OF RECOVERABLE CRUDE OIL RESERVES IN THE AREA TO BE SERVED BY THE PIPELINE AND WHICH WOULD BE PRODUCED AND TRANSPORTED IN THE PIPELINE DURING A THIRTY-YEAR PERIOD. INITIAL COST ESTIMATES INDICATED THAT THE CONTEMPLATED PIPELINE FACILITIES COULD BE CONSTRUCTED FOR \$32 MILLION. THE FACILITIES ACTUALLY COST \$42 MILLION, AN INCREASE OF 31% CAUSED BY THE HIGH COST OF CONSTRUCTION IN ALASKA AND THE NEED FOR MORE STRINGENT DESIGN TO MEET ICE CONDITIONS AFFECTING THE TANKER LOADING PLATFORM.

PIPELINE THROUGHPUT

SINCE THE CONSTRUCTION OF THE COOK INLET FACILITIES, THE RESULTS OF DRILLING AND EXPLORATION IN THE AREA HAVE FALLEN FAR SHORT OF INITIAL EXPECTATIONS. MORE THAN THIRTY-FIVE DRY HOLES HAVE BEEN DRILLED WHICH, IF PRODUCTIVE, WOULD HAVE BEEN SERVED BY THE COOK INLET PIPE LINE SYSTEM. PRODUCERS' CURRENT ESTIMATES ARE

THAT RECOVERABLE CRUDE RESERVES ACCESSIBLE TO THE COOK INLET PIPE LINE SYSTEM WILL BE NO MORE THAN 500 MILLION BARRELS. THIS IS 38% LESS THAN THE RECOVERABLE RESERVE ESTIMATE UTILIZED FOR PROJECT ECONOMICS. AS A RESULT, PIPELINE THROUGHPUT HAS BEEN AND IS NOW PROJECTED TO BE SUBSTANTIALLY LESS THAN ORIGINALLY ANTICIPATED AS IS SHOWN ON EXHIBIT II. UNLESS ADDITIONAL CRUDE OIL RESERVES ARE DISCOVERED IN THE AREA CONTIGUOUS TO THE COOK INLET PIPE LINE SYSTEM, IT IS HIGHLY UNLIKELY THAT THE PIPELINE CAN CONTINUE TO BE OPERATED ECONOMICALLY AT THE THROUGHPUT LEVEL NOW PROJECTED FOR 1987.

TARIFF AND FINANCIAL POLICY

THE COOK INLET TARIFF POLICY WAS INITIALLY ESTABLISHED TO SET TARIFFS FILED WITH THE INTERSTATE COMMERCE COMMISSION AT A LEVEL WHICH WOULD RECOVER ALL COSTS AND PROVIDE AN OWNER'S RETURN OF 7% ON I.C.C. VALUATION. UTILIZING THE ORIGINAL CRUDE OIL PRODUCTION FORECAST (ORIGINAL PROJECTION, EXHIBIT II), THE TARIFF WAS SET AT 21-CENTS PER BARREL. INITIAL PRODUCTION EXCEEDED

EXPECTATIONS AND PRODUCERS' RE-EVALUATIONS OF RESERVES INDICATED THAT PRODUCTION WAS GOING TO EXCEED THE ORIGINAL PROJECTION, PARTICULARLY IN THE FIRST FEW YEARS. BASED ON EXPECTED INCREASED PRODUCTION AND THE ESTABLISHED TARIFF POLICY, THE TARIFF WAS REDUCED TO 16-CENTS PER BARREL IN MAY, 1968. PRODUCTION FELL BELOW FORECAST AND COOK INLET PIPE LINE COMPANY ENDED THE YEAR 1968 WITH A BOOK LOSS OF \$123,000 AND A CUMULATIVE LOSS OF \$1 MILLION. IN MAY, 1969, THE TARIFF WAS INCREASED TO 20-CENTS WHICH PERMITTED COOK INLET TO OVERCOME THE BOOK DEFICIT. IN APRIL, 1970, IT HAD BECOME EVIDENT THAT CONNECTED RECOVERABLE CRUDE RESERVES WOULD PROBABLY BE NO MORE THAN 500 MILLION BARRELS, AND THE OWNERS AGREED THAT COOK INLET'S FINANCIAL POLICY SHOULD PLACE EMPHASIS UPON RETIREMENT OF INDEBTEDNESS WITHIN THE LIFE EXPECTANCY INDICATED BY CURRENT ESTIMATES OF CRUDE PRODUCTION (CURRENT PROJECTION, EXHIBIT II). THE TARIFF WAS ACCORDINGLY INCREASED TO 22 1/2-CENTS EFFECTIVE JANUARY, 1971, WITH THAT RATE SCHEDULED TO REMAIN IN EFFECT UNTIL SUCH TIME (PROBABLY 1978) AS IT BECOMES NECESSARY TO FURTHER INCREASE THE TARIFF TO MAINTAIN A BREAKEVEN POSITION. THE

CURRENT COOK INLET FINANCIAL POLICY PROVIDES NO DIVIDENDS TO THE OWNERS AND ALL CASH INCOME IN EXCESS OF WORKING CAPITAL REQUIREMENTS IS UTILIZED TO RETIRE DEBT. THE GOAL OF THIS FINANCIAL POLICY IS TO GENERATE SUFFICIENT FUNDS DURING THE REMAINING ECONOMIC LIFE OF THE COOK INLET FACILITY TO REPAY THE INDEBTEDNESS INCURRED TO CONSTRUCT THE FACILITY, AND TO RETURN THE OWNERS' ORIGINAL EQUITY INVESTMENT WITH NO EARNINGS THEREON.

OIL PRODUCTION AND PIPELINE THROUGHPUT

THE ANNUAL THROUGHPUT VOLUMES OF COOK INLET SHOWN ON EXHIBIT II PARALLEL THE CLASSIC PRODUCTION CURVE OF A SINGLE OIL FIELD OR GROUP OF FIELDS DISCOVERED AT APPROXIMATELY THE SAME TIME. PRODUCTION GRADUALLY INCREASES AS FIELD DEVELOPMENT WELLS ARE DRILLED FOLLOWING A PIPELINE CONNECTION TO THE FIELD. SOMETIME AFTER ALL PRODUCTIVE WELLS DRILLED IN THE AREA ARE CONNECTED TO THE PIPELINE, PRODUCTION WILL REACH A PEAK UNLESS PRODUCTION IS OTHERWISE LIMITED FOR A PERIOD OF TIME BY PIPELINE CAPACITY, PRORATIONING OF PRODUCTION, OR RESERVOIR FACTORS. THEREAFTER, PRODUCTION WILL

GRADUALLY DECLINE OVER THE PRODUCING LIFE OF THE FIELD, UNLESS ADDITIONAL RESERVES ARE DISCOVERED IN THE AREA SERVED BY THE PIPELINE, THE THROUGHPUT OF THE PIPELINE WILL DECREASE AS THE CRUDE OIL IS PRODUCED. IN THE ABSENCE OF NEWLY DISCOVERED RESERVES, THE COMBINATION OF DECLINING THROUGHPUT VOLUMES AND INCREASING OPERATING COSTS PER BARREL WILL ULTIMATELY RESULT IN AN UNECONOMICAL PIPELINE OPERATION EVEN IF TRANSPORTATION CHARGES ARE SUBSTANTIALLY INCREASED. ULTIMATELY, PRODUCING AND PIPELINE OPERATING COSTS WILL EXCEED THE VALUE OF THE CRUDE OIL AND BOTH THE OIL FIELD AND THE PIPELINE FACILITY WILL BE ABANDONED.

CRUDE OIL PIPELINES VERSUS PUBLIC UTILITIES

A COMMON CARRIER CRUDE OIL PIPELINE FACILITY CONSTRUCTED TO TRANSPORT PRODUCTION FROM ONE OR MORE NEWLY DISCOVERED OIL FIELDS DIFFERS SUBSTANTIALLY FROM A PUBLIC UTILITY FACILITY. A CRUDE OIL PIPELINE IS A SUBSTANTIALLY MORE RISKY BUSINESS VENTURE THAN A PUBLIC UTILITY ENTERPRISE OR EVEN OTHER TYPES OF COMMON CARRIER TRANSPORTATION OPERATIONS. A PUBLIC UTILITY FACILITY IS ORDINARILY

CONSTRUCTED TO PROVIDE A BASIC SERVICE TO A SEGMENT OF THE GENERAL PUBLIC, OR TO ALL MEMBERS OF THE GENERAL PUBLIC IN A GIVEN AREA, BECAUSE OF POPULATION GROWTH, A PUBLIC UTILITY NORMALLY HAS ASSURED GROWTH IN ITS BUSINESS FROM A FIXED BASE FOR AN INDEFINITE PERIOD OF TIME WITH VERY LITTLE LIKELIHOOD OF ULTIMATE ABANDONMENT OF ITS FACILITIES, AND WITH, TYPICALLY, PERIODIC RATE INCREASES TO MAINTAIN PROFITABILITY. ON THE OTHER HAND, A CRUDE OIL PIPELINE, PARTICULARLY IN A REMOTE PRODUCING AREA SUCH AS ALASKA, WILL BE CONSTRUCTED ONLY TO MEET A SPECIFIC NEED -- THE TRANSPORTATION OF LARGE VOLUMES OF NEWLY DISCOVERED CRUDE OIL RESERVES. CONSEQUENTLY, SUBSTANTIAL INITIAL CAPITAL INVESTMENT IN THE PIPELINE FACILITY IS REQUIRED AT ONE TIME AS CONTRASTED WITH THE MORE GRADUAL INCREMENTAL CAPITAL INVESTMENT OVER A PERIOD OF YEARS BY A PUBLIC UTILITY TO MEET THE INCREASING SERVICE DEMANDS OF A GROWING POPULATION. SUCH A CRUDE OIL PIPELINE FACILITY IS DESIGNED SOLELY TO TRANSPORT THE DISCOVERED AND PROSPECTIVE OIL RESERVES IN THE AREA IN WHICH THE PIPELINE IS CONSTRUCTED. THERE IS NO ASSURANCE THAT ADDITIONAL OIL FIELDS WILL BE DISCOVERED IN THE AREA SERVED BY THE PIPELINE OR

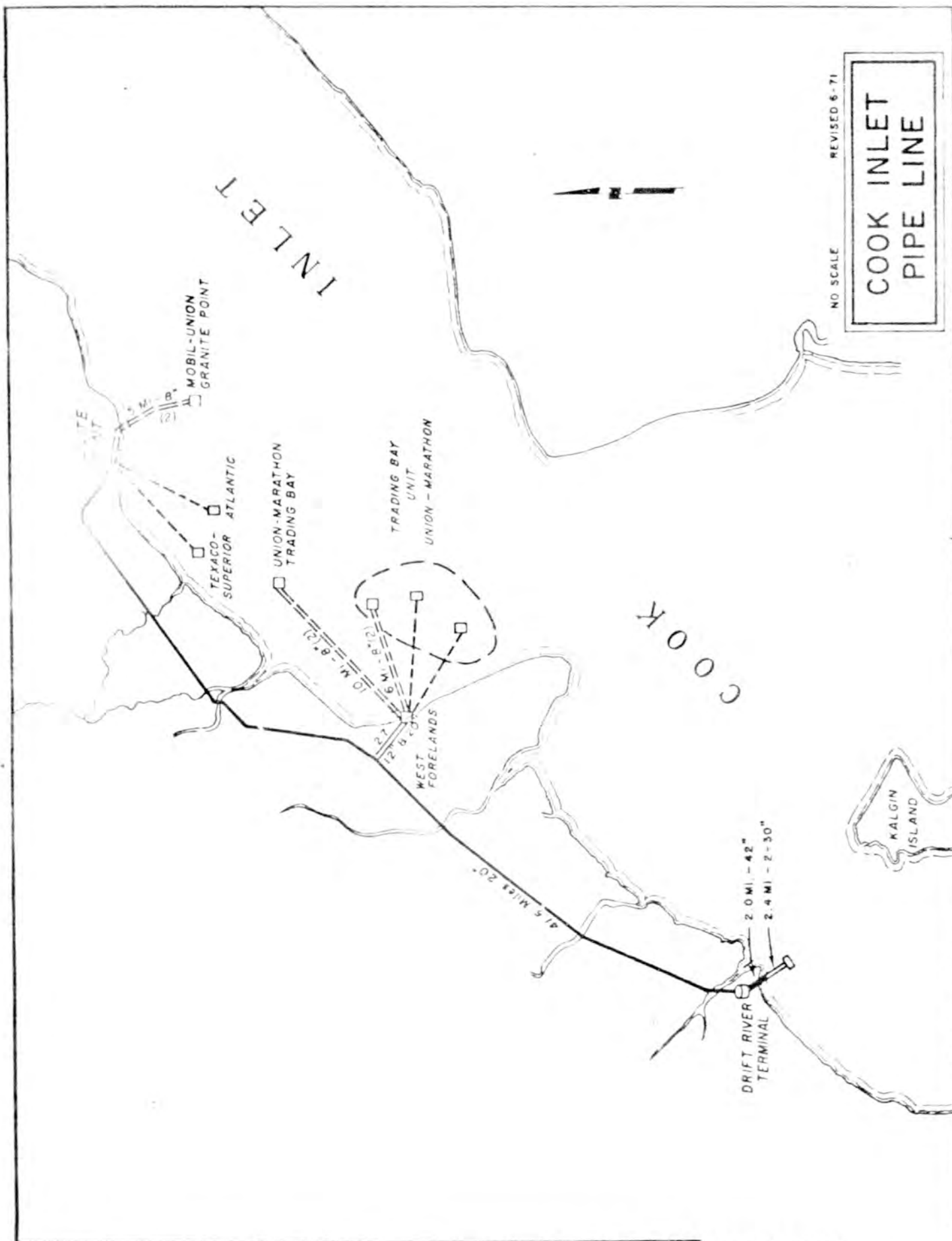
EVEN THAT THE ANTICIPATED PROSPECTIVE CRUDE OIL RESERVES WILL ULTIMATELY BE PRODUCED AND TRANSPORTED IN THE PIPELINE, THE ABANDONMENT OF THE PIPELINE FACILITY WHEN OIL RESERVES ARE DEPLETED IS A CONCRETE PROBABILITY FROM THE VERY INCEPTION OF THE PIPELINE PROJECT. THESE UNUSUAL CRUDE OIL PIPELINE RISK FACTORS RESULTING FROM THE CHANCE LOCATIONS OF UNDERGROUND OIL RESERVOIRS ARE INEVITABLE AND ACCEPTED IN THE OIL INDUSTRY. BECAUSE THESE HIGH RISK FACTORS CANNOT BE AVOIDED, CRITERIA FOR DETERMINING REASONABLE RATES OF RETURN ON OIL PIPELINE INVESTMENTS HAVE ALWAYS RECOGNIZED THAT TRADITIONAL PUBLIC UTILITY RATE-MAKING CONCEPTS CANNOT BE REALISTICALLY APPLIED TO OIL PIPELINE COMMON CARRIERS.

RECOGNITION OF RISK

THE WILLINGNESS OF OIL COMPANIES TO CONSTRUCT THE COOK INLET PIPE LINE SYSTEM WITHOUT ASSURANCE OF AN ACCEPTABLE LEVEL OF PROFITABILITY ON THE INVESTMENT IN THE FACILITY DEMONSTRATES THE ECONOMIC RISK ASSUMED IN CRUDE OIL PIPELINE INVESTMENTS BY ENTERPRISES IN THE PETROLEUM INDUSTRY. THE PARTICIPANTS IN THE

TRANS ALASKA PIPELINE SYSTEM PROJECT SIMILARLY HAVE NO ASSURANCE THAT THE PIPELINE FACILITY WILL BE A PROFITABLE INVESTMENT OVER ITS LIFE. NEVERTHELESS, THE TAPS OWNERS ARE WILLING TO ASSUME THE RISK INHERENT IN THE PROJECT. FUTURE DEVELOPMENTS WILL DETERMINE WHETHER THE TRANS ALASKA PIPELINE SYSTEM WILL BE A PROFITABLE INVESTMENT OVER THE LIFE OF THE PROJECT.

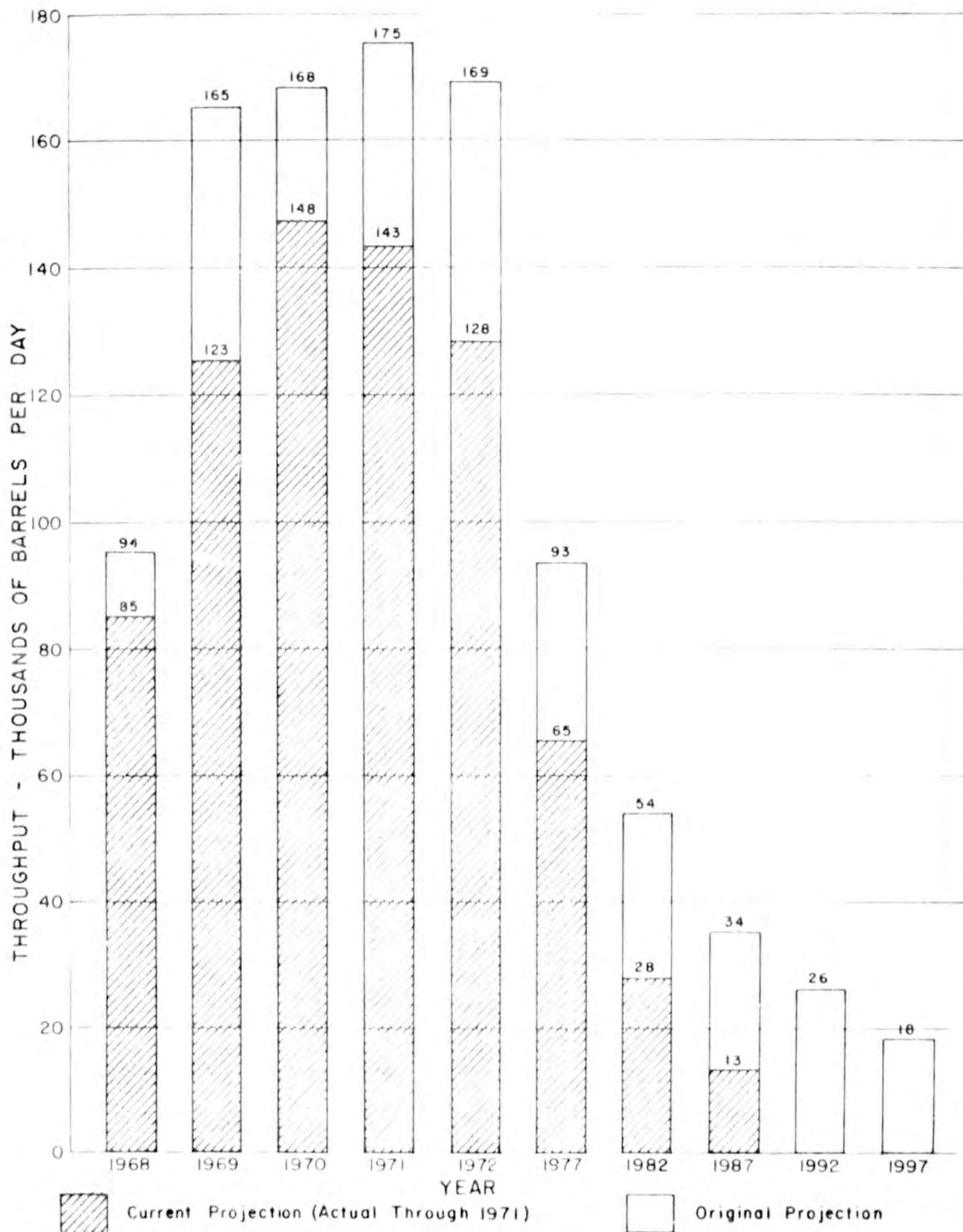
JRK-GAS/JV
MARCH 3, 1972



A-2291-5

COOK INLET PIPE LINE COMPANY ANNUAL THROUGHPUT VOLUMES

EXHIBIT 11



AGO 531803

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
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REMARKS OF THOMAS BROUSSARD
TO THE JOINT HEARING OF THE SENATE COMMERCE COMMITTEE
AND THE HOUSE STATE AFFAIRS COMMITTEE
ON PROPOSED ALASKAN LEGISLATION CONCERNING
PIPELINE REGULATION, RIGHT-OF-WAY AND
STATE OWNERSHIP -- MARCH 6, 7, & 8, 1972

MR. CHAIRMAN: MY NAME IS THOMAS BROUSSARD, AND I AM A TAX ATTORNEY IN THE LEGAL DEPARTMENT OF ATLANTIC-RICHFIELD COMPANY.

TOGETHER WITH COUNSEL REPRESENTING SEVERAL OTHER OIL COMPANIES, INCLUDING COUNSEL FROM SEVERAL LAW FIRMS, I HAVE STUDIED THE QUESTIONS OF FEDERAL TAXATION OF THE STATE OF ALASKA ON POTENTIAL PROFITS TO BE DERIVED FROM OWNERSHIP OF A TRANS-ALASKA PIPELINE AND THE SEPARATE QUESTION OF THE TAXATION OF INTEREST RECEIVED BY BONDHOLDERS FROM ANY BONDS THAT MIGHT BE ISSUED BY THE STATE OR A PUBLIC AUTHORITY FOR THE PURPOSE OF BUILDING THE PIPELINE. IT IS MY OPINION AND THAT OF MY COLLEAGUES THAT IT IS VERY DOUBTFUL THAT EITHER THE STATE OR ITS BONDHOLDERS, UNDER THE BILLS INTRODUCED BY THE ADMINISTRATION, WILL BE EXEMPT FROM FEDERAL INCOME TAX.

THE PROPOSAL FOR PIPELINE OWNERSHIP AS DESCRIBED TO THE COMMITTEES SEEKS TWO TAX ADVANTAGES TO INCREASE STATE REVENUES AT THE EXPENSE OF THE FEDERAL TREASURY. THE FIRST ASSUMED ADVANTAGE IS FOR THE STATE ITSELF TO RECEIVE AS PIPELINE PROFIT AN AMOUNT EQUAL TO THE FEDERAL INCOME TAX WHICH WOULD BE PAID BY THE OIL COMPANIES ON ANY INCOME EARNED FROM THE PIPELINE. THE SECOND

HOPED FOR ADVANTAGE IS TO REDUCE THE INTEREST COST ON DEBT FINANCING OF THE LINE BY AN AMOUNT EQUAL TO THE FEDERAL INCOME TAX WHICH WOULD BE PAID BY HOLDERS OF PRIVATE COMPANIES' BONDS.

CONSIDERING THE LIKELIHOOD OF THE STATE'S EXEMPTION FROM FEDERAL INCOME TAX ON PROFIT FROM THE PIPELINE, THERE IS NO QUESTION THAT CONGRESS HAS THE CONSTITUTIONAL POWER TO TAX THE STATE ON ITS INCOME FROM BUSINESS OPERATIONS. THE PAST POSITION OF THE IRS HAS BEEN THAT CONGRESS HAS NOT IMPOSED THE FEDERAL INCOME TAX ON A STATE DIRECTLY ENGAGED IN A BUSINESS ACTIVITY FOR THE PURPOSE OF PROVIDING A PUBLIC NECESSITY OR IN THE EXERCISE OF ITS POLICE POWER. HOWEVER, IT IS DOUBTFUL THAT THE IRS WILL MAINTAIN THAT POSITION IF ASKED TO RULE ON THE QUESTION OF THE STATE OF ALASKA OPERATING A 3.5 BILLION DOLLAR PIPELINE TO CARRY OIL FOR A LIMITED NUMBER OF PRIVATE OIL COMPANIES.

IF THE IRS DID GRANT A FAVORABLE RULING, WHERE, AS STATED BEFORE THIS COMMITTEE, THE INTENTION OF THE STATE IS TO SUBSTITUTE ITSELF FOR PRIVATE BUSINESSES WHICH ARE READY, ABLE AND WILLING TO ENGAGE IN A COMMERCIAL ACTIVITY FOR THE BENEFIT OF RELATIVELY FEW PRIVATE USERS, AND PASS ON TO THOSE COMPANIES ALL OR A MAJOR PORTION OF THE SAVINGS FROM ITS PRIVILEGE OF TAX EXEMPTION, CONGRESS IS ALMOST CERTAIN TO EXAMINE WHETHER THE PRIVILEGE OF TAX IMMUNITY SHOULD BE CONTINUED. THE RESULT, I AM SURE, WOULD BE AN AMENDMENT TO THE STATUTE TO MAKE CLEAR THE INTENTION OF CONGRESS THAT SUCH INCOME SHOULD NOT ESCAPE FEDERAL TAXATION. IN FACT, IT IS DOUBTFUL THAT CONGRESSIONAL REACTION WOULD BE LIMITED TO THIS STATE ACTIVITY.

WITH RESPECT TO THE POSSIBILITY OF THE EXEMPTION FROM FEDERAL INCOME TAX OF INTEREST RECEIVED BY THE HOLDERS OF BONDS ISSUED BY A

STATE AUTHORITY TO FINANCE THE PIPELINE, THE ANSWER IS CLEAR. INTEREST ON STATE BONDS IS EXEMPT FROM FEDERAL TAX SOLELY BY VIRTUE OF SECTION 103(A) OF THE INTERNAL REVENUE CODE.

IN THE WORDS EARLIER THIS YEAR OF AN ATTORNEY-ADVISOR IN THE OFFICE OF TAX LEGISLATIVE COUNSEL OF THE U.S. TREASURY DEPARTMENT "THE INCREASING USE OF TAX-EXEMPT FINANCING FOR PURPOSES BEYOND THOSE ORIGINALLY CONTEMPLATED BY SECTION 103(A) HAS LED TO A SERIES OF ACTIONS BY THE TREASURY AND THE CONGRESS TO RESTRICT SUCH FINANCING TO THE PURPOSES FOR WHICH THE EXEMPTION WAS ORIGINALLY GRANTED."

THE ABUSE WHICH PROMPTED CONGRESS IN 1968 TO AMEND SECTION 103 WAS PRIMARILY THE USE BY STATES OF THE TAX EXEMPTION TO FINANCE INDUSTRIAL PROJECTS FOR PRIVATE COMPANIES. TO MY KNOWLEDGE, THE LARGEST SUCH PROJECT INVOLVED STATE BONDS OF LESS THAN 100 MILLION DOLLARS. THE PROPOSED LEGISLATION WOULD UTILIZE THIS PRIVILEGE FOR A PROJECT ESTIMATED AT 35 TIMES THAT AMOUNT. THE PREVIOUS CONCERNS EXPRESSED BY CONGRESS AND THE TREASURY THAT EARLIER ISSUES WERE CREATING UNINTENDED BENEFITS FOR PRIVATE BUSINESS AND REDUCING THE MARKET FOR MUNICIPAL BONDS FOR NEEDED GOVERNMENTAL SERVICES ARE DWARFED BY THE MAGNITUDE OF THIS PROPOSAL.

THE ACTION BY CONGRESS TO RESTRICT THE TAX EXEMPTION OF INTEREST ON MUNICIPAL BONDS ARE CONTAINED IN SECTION 103(c) OF THE INTERNAL REVENUE CODE, WHICH DENIES TAX EXEMPTION FOR INTEREST ON INDUSTRIAL DEVELOPMENT BONDS. FOR OUR PURPOSES AN INDUSTRIAL DEVELOPMENT BOND MAY BE DEFINED TO MEAN ANY OBLIGATION ISSUED AS A PART OF AN ISSUE, ALL OR A MAJOR PORTION

OF THE PROCEEDS OF WHICH ARE TO BE USED DIRECTLY OR INDIRECTLY IN ANY TRADE OR BUSINESS CARRIED ON BY ANY NON-TAX-EXEMPT PERSON AND THE PRINCIPAL OR INTEREST OF WHICH IS SECURED OR TO BE DERIVED FROM ANY INTEREST IN PROPERTY USED IN A TRADE OR BUSINESS OR FROM PAYMENTS IN RESPECT OF SUCH PROPERTY.

THIS LATTER TEST, CALLED THE SECURITY INTEREST TEST, IS CLEARLY SATISFIED WHEN THE BOND SERVICE IS TO BE PAID FROM THE REVENUES OF THE PIPELINE AS PROPOSED, PROVIDED THE PIPELINE IS USED IN THE TRADE OR BUSINESS OF THE OIL COMPANIES.

THE FIRST TEST, CALLED THE TRADE OR BUSINESS TEST, IS THE CRITICAL ONE. THE PROPOSED REGULATIONS INTERPRETING THIS LANGUAGE ARE SUBJECT TO CHANGE, BUT AT PRESENT PROVIDE THAT THE TRADE OR BUSINESS TEST IS MET "IN THE CASE OF A FACILITY CONSTRUCTED, . . . OR ACQUIRED WITH THE PROCEEDS OF AN ISSUE WHICH IS OSTENSIBLY OWNED AND OPERATED BY AN EXEMPT PERSON (SUCH AS THE PROPOSED TRANS ALASKA AUTHORITY) BUT WHERE ONE OR MORE NON-EXEMPT PERSONS (SUCH AS THE OIL COMPANIES) AGREE, PURSUANT TO ONE OR MORE LONG-TERM CONTRACTS, TO TAKE, OR TO TAKE OR PAY FOR, A MAJOR PORTION (MORE THAN 25%) OF THE OUTPUT OF SUCH FACILITY (WHETHER OR NOT CONDITIONED UPON THE PRODUCTION OF SUCH OUTPUT) FOR PERIODS OF TIME WHICH ARE SUBSTANTIAL IN RELATION TO THE TERMS OF THE BONDS."

ALTHOUGH THE REGULATION SPEAKS OF OUTPUT OR PRODUCTION FROM A FACILITY, THE SAME RULE WOULD APPLY TO GUARANTEEING INPUT TO A FACILITY SUCH AS A PIPELINE IN WHICH THE REVENUE IS EARNED FROM CARRYING CRUDE OIL.

FROM DISCUSSIONS WITH PERSONS EXPERIENCED IN PUBLIC FINANCING OF PIPELINES, WE HAVE BEEN CONSISTENTLY ADVISED THAT LONG-TERM

COMMITMENTS TO SUPPLY CRUDE TO THE LINE UNDER A TAKE OR PAY THROUGHPUT AGREEMENT WILL BE NECESSARY TO SELL THE BONDS.

INDEED THE MINIMUM SHIPPING AGREEMENTS DESCRIBED BY MR. GUILDEHOUS (WHILE NOT SUFFICIENT TO SATISFY INVESTORS IN THE VIEW OF MR. GARY) IS IN MY OPINION SUFFICIENT TO SATISFY THE TRADE OR BUSINESS TEST OF SECTION 103(c) AND, THUS, TO MAKE THE PROPOSED BONDS INDUSTRIAL DEVELOPMENT BONDS NOT ENTITLED TO TAX EXEMPTION. UNDER SUCH A PLAN (WHICH THE TEMPLE REPRESENTATIVES SAID HAS NOT BEEN ACCEPTED BY THE STATE OR ITS FINANCIAL ADVISORS), THE COMPANIES WOULD BE ASKED TO MAKE A LONG-TERM CONTRACT TO GUARANTEE TO PROVIDE MORE THAN 25% OF THE CRUDE TO BE TRANSPORTED THROUGH THE LINE WHICH IS THE EQUIVALENT OF GUARANTEEING TO TAKE OR PAY FOR MORE THAN 25% OF THE TRANSPORTATION SERVICE.

MR. CADES STATED THAT THE VOLUME OF THE LINE AVAILABLE TO THE OWNER COMPANIES IS SUBJECT TO REDUCTION FOR OTHER USERS, WHICH CHANGES THE TAKE OR PAY NATURE OF THE CONTRACT. BUT, SINCE ANY ADDITIONAL USERS ARE UNLIKELY TO REDUCE THE ORIGINAL COMPANIES' COMMITMENT BELOW 25% AND SUCH USERS ARE THEMSELVES NON-EXEMPT PERSONS, I FAIL TO SEE HOW THIS WOULD ESCAPE THE DEFINITION OF INDUSTRIAL REVENUE BONDS SET FORTH IN THE REGULATIONS.

THERE IS AN EXCEPTION THAT "FACILITIES WILL NOT BE TREATED AS INDIRECTLY USED IN THE TRADES OR BUSINESSES OF NON-EXEMPT PERSONS WHERE SUCH PERSONS PURCHASE THE OUTPUT OF THE FACILITIES ON TERMS WHICH ARE CUSTOMARY IN THE INDUSTRY FOR SALE OF SUCH OUTPUT AND WHICH DO NOT HAVE THE EFFECT OF TRANSFERRING TO THEM THE BENEFITS AND BURDENS OF OWNERSHIP OF SUCH FACILITIES."

AS A SAFE HAVEN FROM THE TEST OF WHETHER THE BENEFITS AND BURDENS OF OWNERSHIP HAVE BEEN TRANSFERRED, THE REGULATIONS PROVIDE THAT THE TRADE OR BUSINESS WILL NOT BE MET IF THE OUTPUT "IS SOLD TO A SUBSTANTIAL NUMBER OF UNRELATED CUSTOMERS UNDER A RATE SCHEDULE OF GENERAL APPLICATIONS PROVIDED THAT NO SINGLE CUSTOMER PAYS ANNUALLY A DEMAND CHARGE OR GUARANTEED MINIMUM PAYMENT WHICH EXCEEDS 2-1/2% OF THE AVERAGE ANNUAL DEBT SERVICE." THE ILLUSTRATION UNDER THIS EXCEPTION DEALS WITH A FACILITY FOR SUPPLYING ELECTRIC ENERGY.

IN OUR OPINION, THE MINIMUM SHIPPING AGREEMENTS CAN HARDLY BE SAID EITHER TO BE TERMS OF SALE CUSTOMARY IN THE INDUSTRY OR NOT TO HAVE THE EFFECT OF TRANSFERRING THE BURDENS OF OWNERSHIP TO THE COMPANIES. MR. GARY HAS ALREADY EXPLAINED WHY THE BURDENS OF OWNERSHIP (IN THE FORM OF THE PLEDGE OF COMPANY CREDIT) ARE OF NECESSITY PLACED ON THE COMPANIES. EARLIER TESTIMONY BY THE ADMINISTRATION HAS STATED THAT SOME OF THE BENEFITS OF OWNERSHIP WILL BE PASSED ON TO THE COMPANIES AS WELL. THEREFORE, THE TEMPLE PLAN WILL NOT FIT WITHIN THE EXCEPTION.

THUS, IT IS OUR CONCLUSION THAT IT IS EXTREMELY UNLIKELY THAT A FAVORABLE RULING COULD BE OBTAINED FROM THE INTERNAL REVENUE SERVICE THAT INTEREST ON THESE PROPOSED BONDS WOULD BE TAX EXEMPT. ALTHOUGH RULINGS, ONCE OBTAINED AND ACTED UPON BY THE RECIPIENT, ARE SELDOM, IF EVER, RETROACTIVELY REVERSED, IT SEEMS UNLIKELY THAT CONGRESS, IN VIEW OF ITS POSITION IN 1968, WOULD NOT ACT TO NULLIFY SUCH A RULING BEFORE ANY COMMITMENT HAD BEEN MADE IN RELIANCE ON THE RULING. IN FACT, LEGISLATION WOULD PROBABLY BE

INTRODUCED AS SOON AS ANY APPLICATION FOR A REVENUE RULING BECAME KNOWN WHICH WOULD CAUSE THE IRS TO SUSPEND ACTION ON THE RULING REQUEST.

TWO ADDITIONAL MATTERS SHOULD BE MENTIONED. IT HAS BEEN SUGGESTED THAT IF THE STATE COULD OBTAIN THE TAX BENEFITS UPON WHICH THE ADMINISTRATION'S PROJECTIONS ARE BASED, THESE BENEFITS WOULD BE PASSED ON TO THE OIL COMPANIES. THE MAGNITUDE OF ANY DIFFERENTIAL IN INTEREST RATES HAS BEEN DISCUSSED EARLIER BY ADMINISTRATION WITNESSES AS BEING QUITE SMALL OR NON-EXISTENT, BUT EVEN IF SOME TAX SAVINGS WERE PASSED ON TO THE OIL COMPANIES BY REDUCED TARIFF, WHETHER ORDERED BY THE ICC OR OTHERWISE, THE BENEFIT TO THE COMPANIES WOULD STILL BE SUBSTANTIALLY REDUCED BY THE INCREASED INCOME TAX PAYMENTS ON THE HIGHER PROFITS RESULTING FROM LOWER TRANSPORTATION COSTS.

SECONDLY, THE OWNERSHIP BILL IS DESIGNED TO PROVIDE FINANCING FOR SEVERAL FACILITIES SEPARATE FROM THE PIPELINE IN AN EFFORT TO TAKE ADVANTAGE OF CERTAIN EXEMPTIONS FROM THE INDUSTRIAL REVENUE BOND PROVISIONS OF SECTION 103(c).

WHERE AN OBLIGATION MEETS THE TESTS OF AN INDUSTRIAL DEVELOPMENT BOND, THE INTEREST MAY STILL BE EXEMPT FROM TAX IF THE PROCEEDS ARE USED FOR CERTAIN FACILITIES LISTED IN SECTION 104(c)(4). THOSE FACILITIES ARE:

- "(A) RESIDENTIAL REAL PROPERTY FOR FAMILY UNITS;
- (B) SPORT FACILITIES;
- (C) CONVENTION OR TRAVEL CLUB FACILITIES;

- (D) AIRPORTS, DOCKS, WHARVES,
MASS COMMUTING FACILITIES,
PARKING FACILITIES, OR STORAGE
OR TRAINING FACILITIES DIRECTLY
RELATED TO ANY OF THE FOREGOING;
- (E) SEWAGE OR SOLID WASTE DISPOSAL
FACILITIES OR FACILITIES FOR
THE LOCAL FURNISHING OF ELECTRIC
ENERGY OR GAS;
- (F) AIR OR WATER POLLUTION CONTROL
FACILITIES, OR
- (G) FACILITIES FOR THE FURNISHING OF
WATER, IF AVAILABLE ON REASONABLE
DEMAND TO MEMBERS OF THE GENERAL
PUBLIC."

YOU WILL NOTICE THAT SECTION 1 OF HB 570 LISTS SEVERAL OF THESE EXEMPT FACILITIES. HOWEVER, FOR MOST OF THOSE FACILITIES RELATED TO THE PIPELINE IT IS UNLIKELY THAT THE EXEMPTION WILL APPLY. THE PROPOSED REGULATIONS PROVIDE THAT "TO QUALIFY UNDER SECTION 103(C)(1) AND THIS SECTION AS AN EXEMPT FACILITY, A FACILITY MUST SERVE OR BE AVAILABLE FOR GENERAL PUBLIC USE, OR BE A PART OF A FACILITY SO USED, AS CONTRASTED WITH SIMILAR TYPES OF FACILITIES WHICH ARE CONSTRUCTED FOR THE EXCLUSIVE USE OF A LIMITED NUMBER OF NON-EXEMPT PERSONS IN THEIR TRADES OR BUSINESSES."

THE BULK OF THE FACILITIES ASSOCIATED WITH THE PIPELINE ARE FOR THE USE OF A LIMITED NUMBER OF PRIVATE COMPANIES. HOWEVER,

THIS RULE DOES NOT APPLY TO POLLUTION CONTROL FACILITIES.

IN CONCLUSION, THE REQUIREMENTS OF GUARANTEES BY THE OIL COMPANIES OF THROUGHPUT TO THE PIPELINE NECESSARY FOR SUCCESSFUL MARKETING OF STATE BONDS TO CONSTRUCT THE PIPELINE, AMPLY DESCRIBED BY MR. GARY, WILL MAKE THE INTEREST ON SUCH BONDS SUBJECT TO FEDERAL INCOME TAX. FURTHER, IT IS QUITE POSSIBLE THAT THE STATE'S INCOME FROM OPERATION OF THE PIPELINE WILL BE TAXED BY THE FEDERAL GOVERNMENT. THUS TO THE EXTENT THAT TAX EXEMPTION IS ESSENTIAL TO THE ATTRACTIVENESS OF THE OWNERSHIP BILL, THAT BILL IS UNLIKELY TO SATISFY THE STATE'S REVENUE NEEDS. IN THE MEANTIME, IT CREATES A CONTINUING CLOUD OVER THE PRIVATE FINANCES NEEDED BY THE COMPANIES IN ORDER TO PLACE THE TRANS ALASKA PIPELINE IN SERVICE AS SOON AS POSSIBLE.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

REMARKS OF RAYMOND B. GARY
PARTNER, MORGAN STANLEY & CO.
TO ALASKAN SENATE AND HOUSE COMMITTEES
ON PROPOSED LEGISLATION CONCERNING
PIPELINE REGULATION, RIGHT-OF-WAY AND
STATE OWNERSHIP -- MARCH 6, 7 & 8

INTRODUCTION

MY NAME IS RAYMOND B. GARY AND MY BUSINESS ADDRESS IS 140 BROADWAY, NEW YORK, NEW YORK. I JOINED MORGAN STANLEY & CO. IN 1955, FOLLOWING UNDERGRADUATE STUDIES AT YALE, GRADUATE WORK AT HARVARD, AND SERVICE IN THE U. S. NAVY. I HAVE BEEN A GENERAL PARTNER IN THE FIRM SINCE 1964. I AM ALSO A MANAGING DIRECTOR OF MORGAN STANLEY & CO. INCORPORATED, A PARALLEL CORPORATION WHICH CONDUCTS OUR UNDERWRITING AND BROKERAGE ACTIVITIES.

MORGAN STANLEY IS AN INVESTMENT BANKING FIRM ENGAGED IN ALL PHASES OF THE UNDERWRITING AND DISTRIBUTION OF SECURITIES OF INDUSTRIAL CORPORATIONS, PUBLIC UTILITIES, FINANCIAL CORPORATIONS, TRANSPORTATION COMPANIES INCLUDING AIRLINES AND PIPELINES, AND FOREIGN CORPORATIONS AND GOVERNMENTS. WE ARE MEMBERS OF THE NEW YORK STOCK EXCHANGE AND ASSOCIATE MEMBERS OF THE AMERICAN STOCK EXCHANGE. SINCE 1935, THE YEAR MORGAN STANLEY & CO. WAS FOUNDED, THE FIRM, INCLUDING ITS FOREIGN AFFILIATE, MORGAN & CIE

INTERNATIONAL S. A., HAS MANAGED OR CO-MANAGED A TOTAL OF APPROXIMATELY \$60 BILLION OF SECURITY OFFERINGS. IN ADDITION TO ACTIVITIES RELATED TO UNDERWRITING AND PRIVATE PLACEMENTS, MORGAN STANLEY PROVIDES GENERAL FINANCIAL ADVISORY SERVICES ON A WIDE RANGE OF MATTERS INCLUDING LONG-RANGE FINANCIAL POLICY AND PLANNING.

THE \$60 BILLION TOTAL FINANCING VOLUME I MENTIONED INCLUDES OVER \$2 BILLION OF ISSUES DONE BY OUR FIRM FOR 18 PIPE-LINE COMPANIES. IT ALSO INCLUDES THE LARGEST PUBLIC CORPORATE BOND OFFERING EVER MADE, \$1.6 BILLION OF AMERICAN TELEPHONE & TELEGRAPH COMPANY DEBENTURES WITH WARRANTS ATTACHED, AND THE LARGEST PRIVATE PLACEMENT EVER DONE. WE ALSO HANDLED THE PRIVATE PLACEMENT OF \$550 MILLION FOR CONSTRUCTION OF A HYDRO-ELECTRIC PROJECT IN LABRADOR BY CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED, WHICH IS THE LARGEST PROJECT EVER PRIVATELY FINANCED. THESE RECORD-SIZED CORPORATE FINANCINGS EXCEED IN SIZE ANY LONG-TERM ISSUE SOLD BY A STATE GOVERNMENT. THE ONLY LARGER BOND ISSUES HAVE BEEN THOSE OF NATIONAL GOVERNMENTS, WITH THEIR UNLIMITED TAXING POWER AND ABILITY TO ISSUE MONEY.

HENCE, THE PERSPECTIVE FROM WHICH I SPEAK IS THAT OF A MANAGING DIRECTOR OF A LEADING UNDERWRITER WHOSE PRINCIPAL BUSINESS IS THE RAISING OF CAPITAL, WITH EXPERIENCE IN RAISING VERY LARGE SUMS OF MONEY SUCH AS WOULD BE INVOLVED IN THE

FINANCING OF THE TRANS ALASKA PIPELINE SYSTEM. I AM PLEASED TO HAVE THIS OPPORTUNITY TO SPEAK BEFORE THE COMMITTEE. I SPEAK NOT AS PROPONENT OF ANY FIXED POINT OF VIEW, BUT AS ONE WHO, I BELIEVE, SHARES THE COMMON OBJECTIVES OF ALASKANS AND THE OIL COMPANIES, ALL OF WHOM WISH TO SEE THE PIPELINE CONSTRUCTED IN THE MOST EFFICIENT MANNER, AT THE LOWEST COST, AND AS SOON AS POSSIBLE - IN ORDER TO (1) OPEN UP ONE OF ALASKA'S GREAT NATURAL RESOURCES, (2) HELP MEET THE GROWING NEED FOR ENERGY IN ALL OF THE UNITED STATES, AND (3) MAKE A SIGNIFICANT FAVORABLE CONTRIBUTION TO THE COUNTRY'S BALANCE OF PAYMENTS.

I HOPE THAT BY SHARING WITH YOU MY FIRM'S EXPERIENCE IN FINANCING MANY LARGE UNDERTAKINGS I CAN BE OF ASSISTANCE IN REACHING A SATISFACTORY SOLUTION CONCERNING THE PENDING LEGISLATION.

THE BILLS BEFORE YOUR COMMITTEE, BROADLY SPEAKING, INVOLVE LEGISLATION WHICH WOULD REGULATE THE OPERATION OF THE PIPELINE AND WHICH WOULD PROVIDE FOR POSSIBLE OWNERSHIP OF THE PIPELINE BY THE STATE. I WISH TO DIRECT MYSELF TO DISCUSSING THE POTENTIAL IMPACT OF THESE BILLS UPON THE SUCCESSFUL FINANCING OF THE PIPELINE.

CONVENTIONAL FINANCING OF PIPELINES

I THINK IT MIGHT BE USEFUL IF I TALK BRIEFLY ABOUT HOW JOINTLY-OWNED PIPELINES ARE CUSTOMARILY FINANCED. JOINTLY-